هكذا من الأصل

Kuwait's BP shell game

How sleight of hand cost the UK treasury £600m

Special report, Page 9

World Economy

The worst may be over

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US healthcare

Momentum for change is irresistible

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FINANCIAL TIMES

Europe's Business Newspaper — FRIDAY SEPTEMBER 24 1993 — D8523A

Knesset endorses Israel's peace deal with the PLO

Israel's historic peace agreement with Palestinians was solidly endorsed by parliament, allowing the process to continue without a referendum or early elections on the accord. The vote of 61 to 50, with eight abstentions and one absent, was a good result for premier Yitzhak Rabin and will take momentum away from the rightwing campaign to scuttle the peace process. Page 8

IMF warns on derivatives: A strong warning has been issued in an International Monetary Fund study about risks in the $8,000bn markets in derivatives, such as currency and interest rate swaps. It says many transactions are not fully understood by the senior managers of banks and securities houses. Page 20

Serb bodies found: The UN said the bodies of 56 Serbs, many of them charred and dismembered, had been recovered following a Croatian army incursion into the rebel Serb Krajina enclave. It believed at least 30 of the dead were civilians. A different path to peace, Page 3

Swissair loss: Swissair, which is in the middle of intense negotiations on co-operation with three other European airlines, has published consolidated interim accounts for the first time. They reveal a loss of SFr65m ($46.1m). Page 21

Primerica offer agreed: The board of Travelers, the US composite insurer, has agreed to an offer from the financial services group Primerica to buy the 73 per cent of the company it did not already own. Mr Sanford Weill will be chairman and chief executive of the new group. Page 21

Major's vision: British premier John Major sets out in today's edition of The Economist a vision of a wider, free trading European Community in which power is shifted back to national capitals and monetary union is put into abeyance. Page 11

Champagne sales blow: LVMH, the French luxury goods group, warned of a fall in net profits for 1993. It confirmed it had lost FFr100m ($17.54m) on its champagne business during the first half. Page 21; Guinness decline, Page 22

GPA Group, Irish aircraft leasing company struggling with debt of $5.5bn, completed plans for raising $150m of fresh capital and granted options to GE Capital to take control of the company. Page 21

France eases farm trade opposition: France is toning down its opposition to the Blair House farm agreement. Page 10

Habérer may quit: Jean-Yves Habérer, chairman of Crédit Lyonnais, the French bank, confirmed that he was considering leaving the bank and warned that it would not be ready for privatisation for two years. Page 21

United expands: United Airlines, one of the three biggest US carriers, has reached a marketing alliance with Emirates, the fast-growing Dubai airline, in a further move to expand its international network. Page 23

Ex-minister accused: Rome magistrates called for the prosecution of Giovanni Prandini, for allegedly extorting a total of L20.5bn ($13m) in bribes as Christian Democrat minister of public works from 1989 to 1992. Page 3

Hermès bucks trend: Hermès, the French luxury goods group, bucked the downward trend in the troubled luxury industry by almost doubling net profits to FFr54.6m ($7.1m) in the first half of this year. Page 23

Anheuser slide: Shares in Anheuser-Busch, the US brewery and food group, slid in New York after the company announced it would post a loss in the third quarter as a result of a one-time pre-tax charge of $565m. Page 23

Magna's investment: Magna International, the Toronto-based automotive parts supplier, plans to expand its European operations by investing about C$100m (US$76m) in an unidentified parts manufacturer. Page 23

Trelleborg to sell stake: Trelleborg, the Swedish mining and metals group, said it intended to sell a 70-75 per cent stake in its Munksjö paper and packaging unit via a stock market listing. Page 23

President speechless: A teleprompter mixup almost left President Bill Clinton wordless. As he began his address on healthcare reform, he saw the teleprompter display his February 17 State of the Union speech instead. He read from the written text while the problem was corrected. Drug companies warn, Page 20

■ STOCK MARKET INDICES		
FT-SE 100:	3001.3	(-6.2)
Yield	3.9	
FT-SE Eurotrack 100	1273.84	(+1.85)
FT-A All-Share	1492.98	(-0.1%)
Nikkei	closed	
New York lunchtime		
Dow Jones Ind Ave	3541.71	(-5.31)
S&P Composite	457.71	(+1.59)
■ US LUNCHTIME RATES		
Federal Funds:	3%	
3-mo Treas Bills: Yld	2.952%	
Long Bond	$102\frac{13}{32}$	
Yield	5.834%	
■ LONDON MONEY		
3-mo Interbank	$5\frac{13}{32}$%	(same)
Liffe long gilt future:	Sep $112\frac{21}{32}$	(Sep $112\frac{1}{32}$)
■ NORTH SEA OIL (Argus)		
Brent 15-day (Nov)	$16.2	(16.29)
■ Gold		
New York Comex (Dec)	$359.0	(356.0)
London	$357.25	(354.25)

■ STERLING		
New York lunchtime:		
$	1.5055	
London:		
$	1.506	(1.5205)
DM	2.4775	(2.475)
FFr	8.825	(8.62)
SFr	2.16	(2.1575)
Y	159.5	(161.75)
£ Index	80.4	(80.6)
■ DOLLAR		
New York lunchtime:		
DM	1.6427	
FFr	5.7265	
SFr	1.43385	
Y	105.885	
London:		
DM	1.645	(1.6285)
FFr	5.7275	(5.67)
SFr	1.4345	(1.4185)
Y	106	(106.45)
$ Index	65.3	(64.9)
Tokyo close Y closed		

Austria	Sch30	Germany	DM3.30	Malta	Lm0.60	S.Arabia	SR11
Bahrain	Din1.250	Greece	Dr300	Morocco	MDh13	Singapore	S$4.10
Belgium	BFr65	Hungary	Ft185	Neth	Fl 3.75	Slovak Rp	KSL45
Bulgaria	Lv25.00	Iceland	IKr215	Nigeria	Naira45	Slovenia	SLT220
Croatia	HRD5700	India	Rs40	Norway	NKr16.00	South Africa	R12.00
Cyprus	C£1.00	Israel	Shk5.90	Oman	OR1.50	Spain	Pta210
Czech Rp	CZK45	Italy	L2700	Pakistan	Rs35	Sweden	SKr15
Denmark	DKr15	Jordan	JD1.50	Philippines	Pso45	Switz	SFr3.20
Egypt	E£4.50	Kuwait	Fils.600	Poland	Zl 22,000	Syria	S£50.00
Finland	FM12	Lebanon	US$1.25	Portugal	Es215	Tunisia	Din1.250
France	FFr9.00	Lux	LFr65	Qatar	QR12.00	Turkey	L8000
						UAE	Dh11.00

'War of nerves' over congress of deputies ■ June presidential poll date set

Yeltsin defied by parliament

By Leyla Boulton and John Lloyd in Moscow

PRESIDENT Boris Yeltsin announced yesterday he was likely to stand for re-election next June, as the Russian parliament sought to defy him by calling a special meeting of the Congress of People's Deputies.

Mr Ruslan Khasbulatov, the parliamentary speaker, opened the meeting despite Mr Yeltsin's decree on Tuesday dissolving congress and in defiance of a government warning that the gathering could "trigger war".

"The whole question is now a war of nerves. The question is who will make the first mistake," said Mr Andrei Fyodorov, an aide to Mr Alexander Rutskoi, the vice-president installed by parliament as temporary president.

About 3,000 supporters of the anti-Yeltsin campaign rallied at Russia's White House where deputies were meeting.

Deputy prime minister Mr Sergei Shakhrai, a close aide to Mr Yeltsin, said the authorities had no intention of forcibly expelling deputies from the White House.

But General Pavel Grachev, defence minister, said police and interior ministry troops "were ready to use force against groups of bandits if provocation threatened people's lives" at the White House.

President Yeltsin, meanwhile, embarked on a strategy combining intimidation and seduction to convince deputies and regional councils to give up their resistance to his moves to break Russia's political deadlock.

A majority of Russia's 88 local councils has joined deputies in denouncing as unconstitutional the presidential decree dissolving parliament and convening fresh elections to a modern bicameral assembly in December.

Mr Shakhrai said only four of the 88 local governments – which are mainly appointed by the president – had, however, come out against Mr Yeltsin's decree.

Mr Shakhrai said only those councils which actually blocked preparations for elections would be dissolved. The government meanwhile announced it was cutting off financing for parliament in Moscow and taking over its buildings, its newspaper, and its television programmes.

It warned deputies they would be liable to criminal prosecution for disobeying the president's decree, but said they would be forgiven if they gave up their fight. Mr Georgy Satarov, a leading member of the Presidential Council, suggested the deputies could go on meeting until they got tired.

Although their telephone lines have been cut and some lifts are not working, he said they had a month's food supplies and noted the White House was equipped with its own water and power supplies.

Three leading deputies resigned yesterday, with one, Mr Nikolai Ryabov, a deputy to Mr Khasbulatov, winning a top job as head of the electoral commission responsible for organising new elections. In accordance with President Yeltsin's promise to guarantee the social welfare of "former deputies", the Labour Ministry has publicised a special department set up to help unemployed MPs find new jobs.

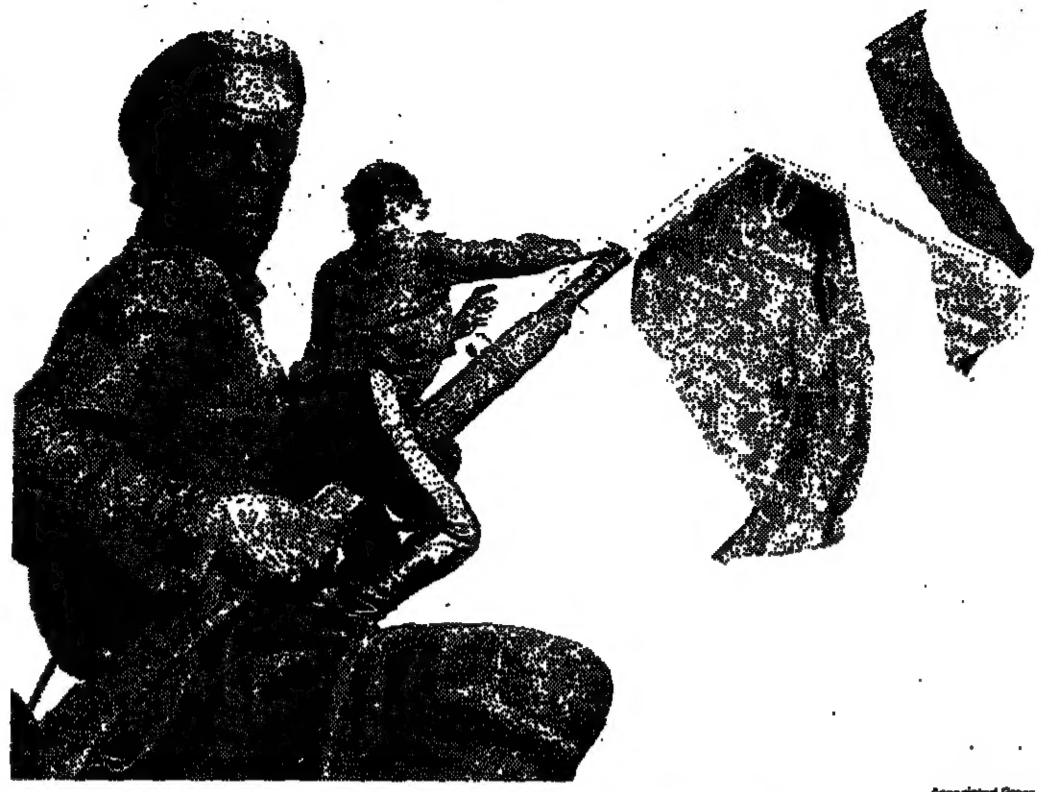
To show his readiness to put his job on the line along with the deputies, Mr Yeltsin yesterday promised presidential elections would be held on June 12, six months after parliamentary elections.

Mr Rutskoi for his part called for simultaneous presidential and parliamentary elections but claimed he would not run for Mr Yeltsin's job.

But Mr Yeltsin said he was opposed to simultaneous elections because that would mean subjecting Russia to a period of dangerous "powerlessness". The June 12 date also marks the third anniversary of his election as Russia's first directly-elected leader.

"This will calm a lot of people in the regions," Mr Yeltsin told Russian television last night. "It will show Yeltsin is not looking for some personal benefit. He is not fighting for his own seat but only for Russia."

Analysis and details, Page 2



Associated Press

Showing defiance: an anti-Yeltsin protester wearing a cossack uniform attaches the flag of the Liberal Democratic party to a statue opposite the Russian parliament building in Moscow yesterday

Sydney wins vote to host Olympics in 2000

By Keith Wheatley in Monte Carlo and Reuter

SYDNEY is to host the Olympics in the year 2000, the International Olympic Committee decided last night.

The vote dashed the hopes of Beijing to gain hard-sought international recognition and of Manchester to bring the Games to Britain for the first time since 1948.

Beijing had been favourite to win the contest. The Chinese government had made the Olympics an intense foreign policy objective since 1990. The three cities were close rivals ahead of Berlin and Istanbul, the other two candidates.

The ballot among 88 IOC members in Monte Carlo followed a day of presentations by the five cities and three years of campaigning.

Exuberant Australian representatives attending the announcement drowned the remainder of the speech by Mr Juan Antonio Samaranch, IOC president.

The victory is a huge boost to a country where sport is almost a religion and big international events are relatively rare. It may also help the Labor prime minister, Mr Paul Keating, in his drive to cut constitutional ties with Britain.

In an emotional television interview last night Mr Keating said the Games "will coincide with the centenary of our federation and will show the world Australia as a nation in its own right".

He said that Sydney beat Beijing in the final round of voting by 45 to 43.

In Sydney tens of thousands of people were celebrating at Circular Quay, which cradles the Opera House. Bars stayed open all night for the result which came at 4.30am local time.

The Games have been held once before in Australia, in 1956 in Melbourne – the only time the Olympics have been staged in the southern hemisphere. Brisbane was unsuccessful in its bid to host the 1992 Games and Melbourne lost to Atlanta for the 1996 Games.

Kuwait misled UK over share purchase

By Peter Bruce and Robert Peston in London

KUWAIT misled the UK government about the identity of the purchaser of a 21.7 per cent stake in British Petroleum in the late 1980s. As a result, it received more than £600m in tax refunds to which it was not entitled.

According to detailed testimony from a former senior Kuwaiti official, the $1.7bn stake was bought in late 1987 and early 1988 for the Kuwait Petroleum Corporation, Kuwait's national oil company. Until now, Kuwait has always maintained that the buyer was the Kuwait Investment Office on behalf of the state fund, the Reserve for Future Generations.

The official, who cannot be named because he fears reprisals, says the Monopolies and Mergers Commission, which investigated the BP investment, the British government and the Inland Revenue were all misled about the identity of the buyer.

His statement has been corroborated by a past Kuwaiti minister and two former KIO employees and is also supported by copies of Swiss bank statements which show that the KIO manages KPC's funds.

KPC ownership of the shares may mean that more than £600m of tax refunds which Kuwait has received on income from the BP shares is repayable. This includes a £458m payment which the Inland Revenue made to the KIO in the spring of 1989 as part of a complicated deal by which BP bought back more than half the stake from Kuwait.

Mr Gordon Brown, the UK shadow chancellor of the exchequer, said yesterday: "I will call for a statement from the chancellor on this extraordinary loss of tax revenue . . . I want an independent inquiry into it."

Kuwait received the £600m of tax credits because the KIO, as an arm of the Kuwaiti government, is treated in the UK as a sovereign for tax purposes. Under an international convention, sovereigns do not pay tax.

However, companies set up by issuing shares, such as the KPC, do not qualify for sovereign immunity.

"Sovereign immunity is being abused," said Mr Brown, who coincidentally has been considering whether the Labour party should commit itself to a policy of narrowing the scope of this tax privilege, which tax experts say costs the Inland Revenue billions of pounds in some

Continued on Page 20

KIO, BP and the $5bn shell game, Page 9

VW issues apology for axed Skoda deal

By Patrick Blum in Prague

VOLKSWAGEN, the German car manufacturer, yesterday apologised to the Czech government for its sudden cancellation of a DM1.4bn ($860m) financing package for Skoda, its Czech subsidiary, only hours before the deal was due to be signed in London last week.

VW reaffirmed its commitment to expand and modernise production at Skoda and promised to increase the variety of cars to be produced at the Czech plant.

"Volkswagen expressed regrets over the embarrassment caused to Skoda's majority shareholder [the Czech government] by its last-minute decision made last week," said a statement issued at the end of a three-hour meeting in Prague.

The meeting was attended by Mr Ferdinand Piëch, chairman of the VW management board, Mr Werner Schmidt, VW finance director, and Mr Vladimir Dlouhy, the Czech trade and industry minister, as well as Mr Tomas Jezek, chairman of the National Property Fund, which oversees privatisations.

VW's decision to call off the

Continued on Page 20

Heidelberger set to acquire CBR after buying stake

By Andrew Hill in Brussels

HEIDELBERGER Zement, Germany's largest producer of building materials, has bought a 43 per cent stake in CBR, the Belgian cement company, triggering a BFr53bn ($1.5bn) offer for the whole company.

If the deal is approved by European Community and national competition authorities, the merged group will become the fourth largest building materials company in Europe, with an annual turnover of DM5.23bn ($3.2bn).

Heidelberger agreed to buy the stake from Société Générale de Belgique, Belgium's largest holding company, which has been trying to reduce its exposure to cyclical industrial stocks.

Viscount Etienne Davignon, chairman of La Générale, said that the cash raised would be held in reserve for possible acquisitions by subsidiaries or the holding company itself.

Mr Davignon added that without the additional money, La Générale had been unable to fulfil its ambition to be an active "professional investor" in the group's businesses.

The German group said it was seeking a majority stake in CBR, but wanted to maintain the latter's stock market listing, and allow it to develop as "an independently managed Belgian-Dutch company with a large independent shareholder base".

The German company is paying BFr22.5bn for La Générale's shares, at BFr11,750 each. That compares with BFr11,475 at which CBR's shares were suspended on the Brussels bourse two days ago. The shares remained frozen yesterday. La Générale closed BFr100 down at BFr2,490 while Heidelberger was suspended at DM1,090 in Frankfurt.

Under Brussels stock exchange rules, Heidelberger must offer at least BFr11,750 to other shareholders. That offer will be launched once the deal is cleared by antitrust authorities.

The merger with CBR will extend Heidelberger's geographical coverage to Belgium, the Netherlands and Canada, and strengthen its operations in the US and Czech Republic. Heidelberger produces a wider range of building materials than CBR.

La Générale said cash released

Continued on Page 20

La Générale confident despite slip, Page 22

CONTENTS

Bankers to discuss debt rescheduling

By Quentin Peel in Bonn and Tracy Corrigan in London

BANKERS representing Russia's commercial bank creditors, who are owed more than $27.5bn (£17.8bn) by Moscow, including arrears in interest payments of more than $3bn, hope to fix a date soon to negotiate a long-term rescheduling agreement.

Talks are planned in the wings of next week's IMF and World Bank annual meetings between representatives of the so-called London Club of creditors and the Russian government. Both sides have talked about the possibility of arranging at least a five-year grace period for repayments, with a possible extension to 10 years, to replace the current repeated agreements on 90-day roll-over periods, banking sources say. The latest roll-over expires at the end of September.

Dealers in the London market are optimistic that Russia will keep its commitment, made at a meeting with the creditors in Frankfurt at the end of July, to repay $500m in outstanding interest payments to the London Club over the next three months.

However there are signs that the banks are becoming angry with Moscow's failure to provide more money to service its outstanding debts, estimated at more than $80bn, split among commercial banks, official creditors, industrial suppliers, and outstanding bonds.

In a sharp attack this week at a conference in Berlin, Mr Georg Krupp, the Deutsche Bank director responsible for operations in eastern Europe and the former Soviet Union, said it was "completely incomprehensible" that Russia could not even find the necessary foreign exchange to make the appropriate repayments on guaranteed export credits.

He cited Russian figures estimating the total foreign exchange resources of the country at some $40bn (£25.9bn), or half its outstanding foreign debt. The figures include $6bn in hard currency reserves at the central bank, $10bn held by Russian banks outside the country, $3bn to $4bn circulating within the Russian economy, and as much as $20bn held illegally by Russian companies in the west.

Editorial Comment, Page 19

Mr Krupp, whose bank chairs the London Club of creditors, said western creditors could not be expected to pour their money into a bottomless pit. It was quite right for Hermes, the German export credit insurance agency, to suspend cover on exports to Russia, given a current exposure of DM207bn (£82.8bn).

Russia's failure to make interest payments on commercial debt, other than on its public bonds, has led to a rapid accumulation of arrears.

According to Russian estimates, still being evaluated by the western creditors, the debt to commercial banks now totals more than $27.5bn, including the latest arrears in interest payments, which come to some $1.5bn in 1993 alone. The outstanding debt to government creditors, including guaranteed export credits, totals some $37bn, while supplier credits and bonds total nearly $12bn. Including new credits and recent arrears, the total is put at some $80bn.

The debt calculations include money owed before January 1 1991, when Russia in effect began to default on repayments, and arrears accumulated since. Most of the commercial bank debt, or around $24bn of the $27.5bn, was owed before 1991, but much of the official debt has been accumulated since: some $14bn predates 1991, and $18.8bn since the cut-off date. Interest arrears owing to official creditors up to end-1992 totalled more than $2bn, according to Russian figures.

Trading in secondary market Russian debt has become very active since it went into default in 1991, as creditor banks sold off portions of bad debt. Continental Bank estimates that trading volume in Russian debt will have grown from around $800m in 1992 to between $3bn and $4bn in 1993.

Prices in the secondary market for non-performing Russian debt have all but recovered the sharp losses incurred following Mr Yeltsin's dissolution of parliament on Tuesday. Prices in Vnesheconombank debt fell six points, from 37 cents in the dollar to 31 cents in the dollar, but yesterday recovered to about 36 cents in the dollar, as the chances of Mr Yeltsin remaining in power improved.

Reuter

Holed up in the White House, deputies of the Russian parliament discuss the future during a break in yesterday's emergency session

Moscow acts to defend rouble

By Leyla Boulton in Moscow

THE RUSSIAN government announced emergency measures to defend the rouble yesterday after it plunged 18 per cent against the dollar to Rbs1,299. The rouble's fall was blamed on the political crisis, an end to central bank dollar sales, and loose monetary policy.

The emergency measures included an increase in the central bank's discount rate from 170 per cent to 200 per cent. It had earlier lifted the rate to 180 per cent. The government also recommended that Sberbank, Russia's biggest savings bank, increase its savings rate.

The central bank, placed under direct government control in Mr Yeltsin's decree on Tuesday, last increased the discount rate in July.

● Mr George Soros, the Hungarian-born financier, promised $250m in new aid for Russia's education system during a meeting with Mr Boris Yeltsin in Moscow yesterday.

'Dictator' Yeltsin free to mould new order

John Lloyd and Leyla Boulton assess the president's constitutional blueprint

RUSSIA is now a wholly centralised state, lacking, at the federal level, even the formal bodies of a countervailing power which were present in the Soviet period.

Until the election of a new parliament in 11 weeks' time, Mr Boris Yeltsin, as president, has the powers of a dictator. The hope that he will not become one rests upon his promises, and those of his government and aides.

The founding instrument of this new precarious state is Mr Yeltsin's decree, signed on Tuesday, "On step-by-step Constitutional reform in the Russian Federation". It is a historically important document, for it seeks both to destroy the old constitutional order which has governed Russia since the collapse of the Union at the end of 1991 – and provide the basis of the new, temporary one.

It claims parliament has "endangered the state and security of the country", and that Russia, as a new state, needs a new constitution, a new parliament and new deputies. It sets out a timetable for these elections – on December 12 – and the tasks to be accomplished: A draft constitution must be approved by a constitutional commission and a constituent assembly. The draft will be placed before parliament as soon as it meets. A Federation Council, composed of council leaders from the regions and republics will form the upper chamber; a state duma with 400 members will form the lower chamber, and will be elected in December.

The decree abolishes the Soviet era parliament, both the standing Supreme Soviet and the occasionally-convened Congress of People's Deputies. It brings the central bank and the procurator general's office, formerly under the parliament, under governmental control (both Mr Viktor Gerashchenko and Mr Valentin Stepankov, the Procurator General, formerly hostile to the goverment, have pledged loyalty). The Constitutional Court has been suspended until a new parliament is elected.

Though the military has also pledged loyalty, it has become clear that the bulk of the security function will fall on the Interior Ministry and its troops. One of the first decisions of the cabinet, on Wednesday, was to pass a resolution "On strengthening the defence of social order", which calls for 40,000 more recruits into the interior forces and the founding of a volunteer corps to patrol neighbourhoods. Though Mr Yeltsin has promised to use no force, neither Mr Viktor Yerin, the Interior Minister nor General Pavel Grachev, the Defence Minister, have been so categorical – the latter promising to return provocation with force.

In the regions, the president claims the adherence of most heads of administration – though not of the elected councils, where the majority are probably against him. Mr Sergei Shakhrai, the deputy prime minister, said no move would be made against them if they merely expressed opposition – they would only be dissolved if they attempted to interfere with elections.

As to the deputies still claiming to run the country in the Russian parliament, Mr Shakhrai said that no move would be made against them – unless their armed guards themselves opened fire on people, or on buildings. "We are quite prepared to live with a situation where not everyone agrees with us," he said. "But we can't tolerate a tragedy."

Mr Yerin, giving the Interior Ministry's estimation of how many people have so far vocally disagreed with the president, said that only 20,000 people across 27 cities (excepting Moscow) had demonstrated so far. "The Interior Ministry has, however, kept itself busy by arresting corrupt bureaucrats, he claimed.

This is, as Mr Shakhrai admitted yesterday, presidential rule. It depends on the will of the president as to how soon it will become a democracy.

IMF chief urges west to give financial support

By Peter Norman in Washington

MR Michel Camdessus, managing director of the International Monetary Fund, yesterday suggested that industrialised nations should give bilateral financial support to Russia in anticipation of the IMF resuming its lending.

He said the Fund was working continuously with the Russian authorities to get their economic reform programme back on track.

The political crisis of the past week was a reason for working still more closely with the Russians, he said. However, the IMF still had difficulties adapting its support programme to take account of the deterioration in Russia's economic policies and performance that had led to failure to implement reforms agreed with the IMF.

At the end of June, the IMF provided $1.5bn of support for Russia under its new temporary systemic transformation facility. A further transfer of $1.5bn is due under the STF while talks have been held on providing support through a stand-by arrangement.

However, Mr Camdessus yesterday indicated that this money would not be forthcoming before early next year.

The IMF managing director stressed that the IMF support was not determined by the political calendar or political events in Russia. The Fund had to look at the policies in place.

However, he said that the industrialised countries might have different priorities.

President ready to fight election next June

By John Lloyd

PRESIDENT Yeltsin yesterday named June 12 next year as the date for presidential elections and indicated he would be a candidate.

Mr Yeltsin said the election was "really inconvenient...nevertheless essential".

The president was elected in 1991 for a five year term, and until last week he said he would complete the term and then retire from politics. He now clearly believes, as he said in April at the summit in Vancouver with President Bill Clinton, that "there is no alternative to me as president – there will be, but not yet".

While at 62 he is no great age for a politician, Mr Yeltsin's health has been erratic. He has persistent heart trouble.

Mr Yeltsin's arch-rival in Moscow, General Alexander Rutskoi, is a likely challenger. Gen Rutskoi, 46, claimed the presidency after Mr Yeltsin dissolved parliament and he was subsequently appointed president by the Supreme Soviet. Yesterday he said he would not run for the presidency, but he is thought to be bluffing.

Gen Rutskoi was elected vice president on the same ticket as Mr Yeltsin – chosen for his links with the army, his leadership of the Democratic Communists (now called the Party of Free Russia) and his influence with centrist deputies in the then Russian parliament.

Since then, Gen Rutskoi has become deeply antagonistic to Mr Yeltsin. He has revealed himself as a strong Russian nationalist, and deeply regrets the loss of power and prestige which the collapse of the Soviet Union brought.

He has, progressively, become more conservative in his economic views – passing from moderate reformism to espousal of a command system. He has, however, never taken extreme nationalist or communist positions, and recently protested when anti-semitic slogans appeared in a cemetery.

Mr Grigory Yavlinsky, 41, a former Russian deputy premier, made a surprise announcement of his intention to run for the presidency earlier this year.

One of the last Soviet deputy premiers in the closing months of the Gorbachev regime, he has recently seen his popularity rating match, then surpass, that of Mr Yeltsin's himself.

He became known in the west for his authorship and espousal of the "Grand Bargain" – an economic reform programme, written with Mr Graham Allison (now assistant secretary of state at the Pentagon), and Professors Jeffrey Sachs and Stanley Fischer.

Since leaving government on the collapse of the union, Mr Yavlinsky has built a reputation as a consultant – mainly to regional governments, and to former Soviet republics – and as an occasional commentator on current events.

Mr Yavlinsky has carefully kept himself free of entanglement with any political faction. In a press conference on Wednesday, he damned both parliament for being obstructive and the president for the risk he was taking with the country's stability. His opponents question his competence as an economist and say he is more politician than thinker. No one doubts his intelligence, nor his self confidence.

Mr Sergei Shakhrai, 37, did not just announce he would stand for president earlier this year, he said in a radio interview, that he "would be" president at some time. "The only question," he said later "is when." But yesterday, Mr Shakhrai seemed to indicate that he would not stand in June if Mr Yeltsin did.

Trained as a lawyer, with a deliberate and thoughtful manner, Mr Shakhrai is credited with much of the tactical thinking in the Yeltsin camp. His current post, deputy prime minister in charge of nationalities policy, keeps his profile high and his contacts with the republics and regions fresh. He has recently founded his own party, based on regional support, and is regarded universally as a serious candidate for high office.

Mr Mikhail Bocharov, 52, a successful businessman who was almost Russia's prime minister (in 1991) announced his intention to stand for the presidency in July – to no great reaction. Though credited with competence and influence, Mr Bocharov's political star has waned: he has thrown his lot in with centrist forces, and published an economic programme "Resurrection", which sees market development being guided by a strong state.

The only other declared candidate is Mr Vladimir Zhjirinovsky, 47, leader of the Liberal Democratic Party, Russia's best known and most vocal fascist.

Moscow literati feel a sad optimism

By Andrei Ostalsky

LIKE MANY of the Russian people, Moscow's intellectuals and cultural elite are trying to come to grips with the political drama in Moscow and to measure the likelihood of armed conflict or civil war.

"Bloodshed must be avoided at any cost, everything else comes second," says Mr Mikhail Yermakov, a former space programme engineer turned entrepreneur. Mr Yermakov says he does not care too much who wins in the stand-off as long as there is no violence. But most of the intelligentsia are more politicised, with the majority siding with Mr Yeltsin.

"I am just plain happy that it has happened at last," says Mr Bulat Okudzhava, a poet and writer. "It's a pity that it took so long for the president to make up his mind to act decisively."

Many in Moscow see Mr Okudzhava as the "conscience" of the Russian literary world. Now he calls himself a "sad optimist" – understanding the depth of the problems facing the Russian people, he still believes in a positive outcome. And in Mr Yeltsin, too.

"The president and the government commit terrible blunders all the time, but at least they are the learners, at least they do understand the absolute necessity of very profound reforms, while their opponents are hopeless," he says.

Mr Okudzhava is one of an influential group of writers who, while wary of Mr Yeltsin's style, would rather see him in power than his rivals.

Mr Vladlen Sirotkin, a historian and a professor at the prestigious Diplomatic Academy, says he is "bewildered and baffled by what both sides are doing. Why, for God's sake, should Mr Khasbulatov, the speaker of the parliament, provoke Mr Yeltsin in such a way? And why should Mr Yeltsin let himself be duped by this provocation into such an illegal action?" Mr Sirotkin believes the main danger lies in the regions. "The local councils [elected] will support the parliament and the regional administrations [appointed by Mr Yeltsin] in most cases will side with the president. Isn't it the recipe for civil war? Finally, they will all lose faith in central institutions and they will try to secede."

And what does he think of the position taken by the west? Not much. "The only thing that matters for the west is that somebody stays in full control of the nukes. And Yeltsin suits them in this role because they are used to him and because he's been popularly elected and has won the recent referendum."

Mr Okudzhava is much more impressed with the west's support of Mr Yeltsin. "It is absolutely wonderful that the west is so unanimous in supporting Mr Yeltsin so firmly. You could easily see on television how terribly angry those idiots in the parliament were with the western reaction."

Mrs Yelena Schelina, an engineer and a senior manager at the Institute for Patent Research, stresses that the danger of street violence is something which terrifies nearly everybody, regardless of their political beliefs. But it is more likely that Mr Yeltsin will pull it off this time, she says.

But what about Mr Alexander Rutskoi? "I used to respect him but don't any more. I think most of the Russians are disappointed in him. Khasbulatov is just using him to get backing from the army," she says.

Andrei Ostalsky is Foreign Editor of Izvestia newspaper

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Carbon tax proposal by Belgium

THE Belgian presidency of the EC yesterday called for a carbon energy tax to offset the costs of reducing employers' mandatory social security contributions and boosting job creation, writes Lionel Barber in Brussels.

Mr Jean-Luc Dehaene, Belgian prime minister, told the European economic and social committee in Brussels that the carbon tax should be part of a European-wide response to the twin challenge of unemployment and the need to curb state budget deficits.

Mr Dehaene's call came as the Belgian coalition government struggles to put together its latest austerity plan aimed at trimming the huge state budget deficit, and reassuring the financial markets about the stability of the Belgian franc.

One element is expected to be a reduction in employers' mandatory social security contributions, with the loss in income to the state being offset by increased indirect taxes on alcohol and tobacco.

More broadly, it anticipates the White Paper on competitiveness being prepared by Mr Jacques Delors, president of the European Commission. The paper, which will examine why Europe is failing to create jobs, is to be the centrepiece of the EC summit in Brussels in December. Mr Dehaene said he was counting on the Maastricht treaty being ratified by Germany in October, so that its provisions could take effect without delay.

These would include a clear demonstration of a common security and foreign policy, strengthening the European Monetary System, and provisions for European citizenship.

EC hears calls for reductions in real wages

THE level of wage increases in Europe, as well as social security costs, needs to be brought down across the Community, according to a majority of EC employment ministers, meeting in Bruges yesterday, writes David Gardner in Bruges.

But most also argued that EC social legislation and the European welfare model could not be ditched in the fight against unemployment.

The meeting, convened to discuss proposals on jobs and competitiveness the European Commission has been asked to prepare for December's EC summit in Brussels, heard vigorous calls for real wages to be cut or frozen.

"Wage increases have to be less than the inflation rate," said Mr José Antonio Griñán, labour minister in Spain's Socialist government. Senior Dutch officials told the meeting that the Netherlands' Christian Democrat-Labour coalition would decree "a legal wage freeze" next year if both sides of industry could not agree to limit increases.

"I see a sea-change in the whole tone of the debate," Mr Michael Forsyth, UK employment minister, said afterwards. On non-wage costs, one British official at the meeting noted that "all member states are now talking about reducing social security costs, and that is clearly new".

However, Ms Miet Smet, Belgian president of the meeting, and Mr Padraig Flynn, the EC commissioner for social affairs, reaffirmed their intention to push ahead with controversial social legislation long stuck in the EC pipeline largely because of British opposition.

Water treatment investment by Twelve to soar

By Bronwen Maddox in London and Lionel Barber in Brussels

INVESTMENT in water treatment will double from its present level by the year 2000, Mr Ioannis Paleokrassis, the European environment commissioner, said yesterday.

Germany expects to spend almost Ecu30bn ($35.4bn) on drinking water in the next 10 years, the UK Ecu20bn, France Ecu8bn, and Denmark Ecu380m, he added.

The two-day gathering of European government officials and water companies marks the start of the Commission's first review of its 13-year-old drinking water directive, one of the most ambitious parts of its environmental regulation. The review has been prompted by complaints from water companies that the standards have been higher than needed on health grounds and have led to unnecessary expense.

However, Mr Paleokrassis told the delegates: "I cannot accept that Europeans drink fetid, stale and brown water on the grounds that it is not dangerous."

This appears to contradict the argument by Mr Tim Yeo, UK environment minister, earlier this week that "temperature, taste and odour" of water were "not the Commission's business".

The UK Water Services Association, which represents the 10 large UK water companies, said yesterday that Mr Paleokrassis was "using emotive words" and that it backed Mr Yeo's call for a more narrowly-focused directive.

Mr Paleokrassis indicated, however, that he would "think very carefully" about whether to incorporate the World Health Organisation's recent, tighter guidelines on lead into the directive.

But he emphasised, however, that "the Commission will take into account the financial impact". UK companies have estimated that replacing all lead pipes could cost £8bn. The WHO also argued yesterday that a single limit for tolerable levels of pesticides was inappropriate, as different pesticides were toxic to different degrees.

Spain set to approve tough budget

By Peter Bruce in Madrid

SPAIN'S minority socialist government is today set to approve a tough 1994 budget, having been unable to secure full agreement on important wages talks with the unions or on regional tax concessions with opposition parties whose support it needs in order to be able to pass it.

The uncertainty surrounding many of the suppositions in the budget - on pensions, civil service pay, unemployment benefits and tax revenue distribution - means that the prime minister, Mr Felipe González, could continue horse trading with the unions and Catalan and Basque parties until the end of the year, by which time the budget, legally, has to be in place.

Ministers and senior officials insist that the government, which has been punished for its past fiscal indiscipline by three peseta devaluations in the last year, intends firmly to stand by its pledge to halt the rapid growth in its central deficit.

Madrid had hoped, in negotiations started with the unions earlier this month, to have agreed - and included in the budget - consensus on a new formula for calculating pensions, on cuts in unemployment benefits, and on a wages freeze for the civil serve next year.

But these talks - regarded by many as a success simply because no party has yet walked away from them - have not been able to reach firm conclusions and the cabinet is set to impose a civil service wage freeze and a public pension increase next year of 3.5 per cent, which the unions argue is too low.

These sums will then form part of the budget.

Lydia Van der Meer

González: has time for more haggling with unions and regions

The figures are not, say officials, necessarily set in stone. The government has said that if the unions agree to a moderate pay over the next three years, it then might be prepared to consider revising its targets on pensions and civil service pay as the budget is debated through parliament for the next three months. This loose arrangement, where deadlines are flexible and final positions are negotiable, suits the government.

It desperately wants to appear to be tough fiscally while also engineering a global incomes deal with the unions. Madrid has its eye on the international financial market which, it fears, may again attack the peseta if it is perceived to be losing control of the economy.

Talks between the government, unions and employers on a global wages deal - which the government wants to last for three years - will start in October.

At about the same time the government hopes to have finalised its controversial proposals for granting the country's autonomous regions the power to spend 15 per cent of the income tax collected in those regions.

This is a political concession demanded by the Catalans in return for helping Mr González pass the budget.

A scheme, hastily cobbled together since the June 6 general election, has however run into opposition from both the economically strong Catalans and poorer states such as Extremadura and Andalucia.

The Catalans say the government is refusing to spell out, exactly, how it plans to make the transfers and that it does not trust Madrid's willingness to actually transfer money. Poorer states say they are likely to progressively lose to the richer regions because of the way the transfer is being designed.

Despite the threat implicit in this opposition, officials believe that Catalan support for the budget is assured by the end of the year, despite complaints from the region's government. "We are close enough to agreement to be able to work out the details in the next few weeks," said one.

Italian ex-minister to be prosecuted as probe advances

By Robert Graham in Rome

ROME magistrates yesterday called for the prosecution of Mr Giovanni Prandini, for allegedly extorting a total of L20.5bn (£8.5m) in bribes as Christian Democrat minister of public works from 1989 to 1992. This is the first time in the 18-month-long corruption scandals that judicial proceedings have reached such an advanced stage involving a former minister.

Mr Prandini was minister in the seventh government of Mr Guilio Andreotti, which left office after the April 1992 elections. The prosecution move also involved Mr Francesco Cafarelli, a Christian Democrat deputy and secretary of the parliamentnary anti-Mafia commission, and Mr Antio Crespo, the former head of Anas, the state roads authority. Together they are accused of having forced 22 businessmen to pay bribes to obtain contracts, mainly connected with work awarded by Anas.

Mr Prandini is cited as having being linked to 18 different bribery episodes. Among these, he is alleged to have obliged Mr Antonio Baldi, a Naples businessman, to buy for L7bn a hotel near Brescia owned by a group headed by Mr Prandini himself. Court documents claim the purchase price was L3bn above the market price and Mr Baldi was threatened with exclusion from future Anas road contracts if he turned down the arrangement.

Bureaucracy swells cost of German unity

By Judy Dempsey in Berlin

THE costs of German unification have been swelled by bureaucracy, officials dining out in five-star hotels in Berlin, and the inefficient use of energy, the Federal Court of Auditors said yesterday.

In a measured, but critical 220-page annual report about how unification has been used to run up unnecessary expenses, the Court of Auditors concluded that unless waste is cut, the finance authorities will be left with little room to manoeuvre.

But the report by the Court of Auditors, an independent institution which acts as a watchdog in monitoring how budgets are spent in the state sector, also reveals Germany's propensity for bureaucracy and waste.

For instance, if thermostats which regulate the temperature of water and heating were installed in state-run housing and enterprises, it would save over DM100m (£40m).

At the moment, heating in many public institutions can only be controlled by opening or closing the windows. If a new computer was installed in the eastern German railway network, it would save DM27m, as well as cutting the numbers of personnel who spend a great deal of time writing out tickets by hand.

The Court of Auditors also reckons that the eastern railways bureaucracy is employing between 20,000 and 30,000 people too many, which is costing the taxpayer between DM1.3bn and DM1.8bn a year.

The Patent office comes under scrutiny too. When the two offices were merged after unification, the staff swelled from 180 to 588, many of whom are simply not needed, the auditors argue.

Unification also gave western German officials sent to Berlin to open branches of the federal ministries an excuse to spend up to DM137 a day on lunch in the city's five-star hotels.

Even the Treuhand is criticised. The auditors call for much greater control over the privatisation agency's operations and finances.

Reuter

Bundesbank head Helmut Schlesinger (right) and successor Hans Tietmeyer in Frankfurt yesterday

Bankruptcies rise in Germany

By Ariane Genillard in Bonn

BANKRUPTCIES in western Germany increased by 26.9 per cent in the first half of the year, with more than 6,000 companies becoming insolvent, the Federal Statistics Office reported yesterday.

Small and medium-sized enterprises unable to weather the domestic recession formed the bulk of bankruptcies. Only 108 bankruptcies led to creditors having claims of more than DM10m (£4m), and 1,179 bankruptcies led to claims of above DM1m.

But the average bankruptcy size increased from the first half of 1992 as creditors' financial claims doubled to DM8.4bn for the first six months of this year.

Bankruptcies in eastern Germany increased by 129 per cent for the period, with creditors' claims reaching DM2.2bn in the region.

In western Germany, 40 per cent of bankruptcies were in manufacturing.

The number of bankruptcies this year is likely to reach the high levels recorded in the mid-1980s, the Cologne-based Institute for the German Economy said. Bankruptcies in Germany peaked in 1985.

Ukraine nuclear assurance

By David White in Kiev

UKRAINE'S President Leonid Kravchuk said yesterday early elections could help to overcome obstacles to the removal of remaining nuclear weapons from its territory. In the meantime, he said, Ukraine was dismantling part of the arsenal.

He told Mr Malcolm Rifkind, UK defence secretary, he hoped for rapid agreement on staging parliamentary elections following Mr Leonid Kuchma's resignation as prime minister on Tuesday after a no-confidence vote. Ukraine is to transfer nuclear arms to Russia in exchange for nuclear fuel for power stations, under an agreement three weeks ago. But prospects for doing so remain blocked by difficulties over parliamentary ratification.

Mr Kravchuk told Mr Rifkind Ukraine had already removed the warheads – 60 in all – from 10 of its older SS-19 strategic missiles and had rendered them virtually impossible to use. Ten more would be dismantled, starting later this month.

Ukraine holds 130 SS-19s, including those it says it has dismantled, as well as 46 SS-24s with 10 warheads each, and about 30 nuclear bombers.

Bosnia given a different path to peace

Laura Silber and **Gillian Tett** report on new negotiating tactics

LORD OWEN and Mr Thorvald Stoltenberg, the international mediators shuttling between Balkan capitals, insist that a peace agreement on Bosnia "is closer than ever before".

The phrase is familiar and as the Bosnian parliament prepares to discuss the latest peace plan on Tuesday, objections by Mr Alija Izetbegovic, the Bosnian president, could still puncture their hopes. But the negotiating tactics are different this time.

Lord Owen's sudden optimism is not entirely disingenuous. In recent weeks, there have been some significant shifts in the mediators' approach which could yet push the sides into signing a deal.

On the one hand, knowing that western governments are anxious for a swift peace, regardless of what kind of rump Bosnian state remains for the Moslems, the mediators have stepped up political and psychological pressure on the Moslem-dominated Bosnian government to accept the 30 per cent now on offer.

Deprived by the international community of any muscle to reverse Serb and Croat military gains in Bosnia, the mediators have been using secret meetings as their main weapon – a tactic that has left them shuttling among the Balkan capitals.

They could be sipping wine with the Serbian president, Mr Slobodan Milosevic, in Belgrade one evening, leaving at dawn to investigate Adriatic ports, before meeting the Croatian president, Mr Franjo Tudjman, the next day.

The second shift has been in the mediators' ambitions. Instead of aiming for a final land deal, they have been pushing the sides to sign an overall peace agreement first, leaving some thorny territorial details, such as Sarajevo, or the boundaries of the Moslem enclaves in the east, to be disentangled later through joint working groups.

The approach seems to owe much to the Middle East negotiations – negotiations which Mr Stoltenberg, the former Norwegian foreign minister, initially participated in.

"There has been a shift," admits one diplomat closely involved in the negotiation, who says that, as in the Middle East, some territorial issues are easier sorted out when the fighting has stopped.

"It is easier to leave the details to a time when people have stopped fighting each other," he says.

It is a tactic that seems, on the surface, not without risks. As Mr John Mills, spokesman for the negotiators, admitted several weeks ago, the devil in the discussions so far has been in the detail. And after 18 months of bloodshed, in which bitter battles have been fought for tiny chunks of land, leaving territorial issues open will leave some local commanders hoping to settle the uncertainties with force later.

But as the envoys themselves repeatedly stress, winter is approaching. In spite of the recent flare up in fighting, all three sides seem militarily exhausted.

And, more significantly, both the Serbs and Croats now have considerable motives to sue for peace.

Since the Bosnian Serbs rejected the Vance-Owen plan for Bosnia, they have improved their position considerably, and Mr Milosevic is anxious to reach a deal to lift the sanctions on Serbia.

'The mediators could be sipping wine with the Serbian president Slobodan Milosevic in Belgrade one evening, leaving at dawn to investigate Adriatic ports, before meeting Croatian president Franjo Tudjman'

In spite of ceding partial sea access to the Moslems last week, control over the Croat-dominated regions of western Hercegovina will also leave the Croat leadership achieving most of their territorial aims in Bosnia.

"Milosevic and Tudjman are hurrying to make their conquests official. We are not hurrying to make a general agreement," says Mr Muhamed Filipovic, a Moslem opposition politician.

Although Mr Izetbegovic has responded to mediators' optimistic outbursts by demanding more concessions – demands which gained him an extra 0.5 per cent of territory earlier this week – he has little reason to believe that he will succeed in negotiating a favourable settlement later.

It seems unlikely that Mr Izetbegovic can postpone his endorsement of the partition plan for much longer.

But for a broad peace deal to stick – and the territorial "details" to be resolved – the mediators will need to ensure a rapid deployment of peacekeeping troops.

Although it seems that Nato is preparing for deployment, with US President Bill Clinton's commitment still unclear and many in the alliance uncertain about who will pay for the force, ensuring whether the troops will be able to get there fast enough remains yet another great uncertainty.

Croatia wants UN to disarm Serb rebels

By Laura Silber in Belgrade

CROATIA said yesterday it would demand more muscle for United Nations peacekeepers to disarm Serb rebels. Otherwise it would refuse to renew the international body's mandate at the end of this month.

The Croatian cabinet called for the 14,000-strong peacekeeping force to disarm Serb rebels who have set up their own state within Croatia or withdraw within two months. Impatient with Serbian intransigence, Zagreb has previously demanded Nato muscle to assert control over Serb rebels.

Croat officials have criticised the UN's failure to fulfil the Vance plan, agreed in January 1992, which called for the disbanding of Serb militias in Croatia's four UN zones and the return of refugees.

Mr Boutros Boutros Ghali, UN secretary general, this week accused Zagreb of "willfully misreading" the role of the peacekeepers. He recommended the extension of the mandate by six months but emphasised that negotiations were the only way to solve the conflict.

The deployment of the peacekeepers in 1992 froze the six-month war. But the peace plan was sidelined when war erupted in Bosnia.

In a stark reminder of the continuing violence, UN officials said the bodies of 66 Serbs, many burned and mutilated, had been recovered after Croat forces seized three Serb-held villages.

"The corpses were in terrible condition – burned, charred, hacked and so forth," Mr Cedric Thornberry, UN civil affairs director, said in Zagreb. UN officials said the condition of the corpses made it impossible to confirm Serb claims that at least 30 people were civilians.

Meanwhile in Sarajevo, Bosnia's wartime parliament will meet on Tuesday to vote on the plan for partition of the republic.

● Serbian opposition leader Vuk Draskovic yesterday held talks with Mr Douglas Hurd, UK foreign secretary, to thank Britain for helping to secure his release from detention this summer.

The Foreign Office said Mr Draskovic, who is in London with his wife as a guest of the government, would hold further talks about the situation in Serbia.

The Foreign Office decision to receive Mr Draskovic seems to mark an another attempt by Britain to step up pressure on the Serb government to counter accusations that Britain has not acted with sufficient resolve in the former Yugoslavia.

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er and Gillian Tett new negotiating tactics

'The mediators could be sipping wine with the Serbian president Slobodan Milosevic in Belgrade one evening, leaving at dawn to investigate Adriatic ports, before meeting Croatian president Franjo Tudjman'

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US calls for action on UN troops

By Nancy Dunne in Washington

MS Madeleine Albright, the US ambassador to the United Nations, yesterday called for an overhaul of the way in which the UN takes decisions on peacekeeping, and said the US would use force unilaterally where its vital interests were at stake.

Ms Albright said UN decision-making must be "overhauled" so that no foreign troops were sent "in harm's way without a clear mission, competent commanders, sensible rules of engagement and the means required to get the job done".

However, the US would not abandon its right to act alone. "President Clinton will not hesitate to act as a commander in chief to protect America and Americans," she said, citing such examples as the US intervention in Panama, pursuit of terrorists, and President Ronald Reagan's decision to apprehend the hijackers of the Achille Lauro cruise ship.

This was the third Clinton administration foreign policy address this week, setting the stage for his appearance at the UN General Assembly next Monday. The speech echoed a Senate foreign 1relations committee report in August. It said troops going into arenas of war must be given clear mandates from the beginning of operations and a realistic time frame of action so operations may be properly planned and implemented.

Congress has grown concerned about US involvement in Somalia and plans in Bosnia. A House appropriations committee this week approved $383m for future peacekeeping operations, disaster relief and humanitarian assistance. It attached a requirement the president inform the committee 15 days before sending troops to an international humanitarian effort. He would have to state the estimated cost of the operation, how it will be funded, its projected duration, scope and goals.

Clinton health plan faces stern test

By George Graham in Washington

PARTISAN battle lines were being drawn in the US yesterday after President Bill Clinton's address to Congress on Wednesday night in which he outlined his ambitious plans for health care reform.

After weeks in which Republican leaders had been expressing their admiration for the work put in by Mr Clinton and his wife on the reforms, it took just minutes for the pretence of bipartisan compromise to evaporate.

While some Republican right-wingers such as Senator Phil Gramm of Texas and Congressman Newt Gingrich of Georgia have been critical all along of Mr Clinton's plan, most of the Republican leadership has seen much in common with their own approaches to reform. In the official Republican response to his televised address on Wednesday night, however, the gloves came off.

Congresswoman Nancy Johnson of Connecticut patronisingly and inaccurately called Mr Clinton a latecomer to the debate over health care, and said his plan would create a "one size fits all" state run monopoly.

Senator Connie Mack of Florida attacked the government's role in Mr Clinton's healthcare proposals. "It's loaded with more spending and more bureaucracy. It will devastate jobs and our economy. It will lead us to a system of government controlled health care at a cost of $700bn," he said.

The White House yesterday issued a statement deploring the Republican response.

"As the president made a national call to arms and a bipartisan appeal to join together to solve this crisis, the Republicans failed to respond in the same spirit," the White House complained.

In his speech, Mr Clinton had promised "healthcare that can never be taken away, healthcare that is always there" through the issue of a health security card to every citizen and legal resident.

"This healthcare system of ours is badly broken and it is time to fix it," Mr Clinton said in his speech.

The Republican criticism focused on some of the questions likely to be at the heart of the debate in the next few months: would Mr Clinton's reform reduce the ability to choose your own doctor? Would it produce a new and cumbersome federal bureaucracy? Should employers have to pay for most of their workers' healthcare costs? Is there enough money to be saved to pay for expanded coverage?

Opinion polls have for some time suggested the Republicans would have a hard time making their case.

A CBS/New York Times poll this week showed 47 per cent of those questioned believed the Democrats would be more likely to improve the healthcare system, compared with only 22 per cent who picked the Republicans.

Instant polling after Mr Clinton's speech on Wednesday night by both USA Today/Gallup and the Washington Post/ABC showed that 55-56 per cent now favoured his reform plan – a substantial leap in approval. Most expected no reduction in their own medical choices.

Harsh medicine's tastegood factor, Page 19

Dr Henri Meier, finance director at Roche, the Swiss healthcare group, yesterday said: "We are not concerned at all about the forthcoming reforms. They certainly won't have a big impact on our bottom line." Roche generated about 25 per cent of its sales in the US last year, and holds a significant position in the US hospital market.

Mr Jan Leschley, of Anglo-American healthcare group SmithKline Beecham, yesterday said: "The main transformation has nothing to do with the Clintons. It's the growth of managed care. Five years ago, it represented 5 per cent of our sales. Now it's 40 per cent. In five years it'll be 60 to 70 per cent."

Intense competition from generic drugs was a change more significant than the reforms. "There is no need for government intervention through price controls. Prices are already controlled through competition," he said.

OFF THE CUFF: Clinton's auto-cue started on the wrong text – he ad-libbed for 10 minutes Reuter

Insurers applaud warily

By Richard Waters in New York

THE US health insurance industry, which stands to bear the brunt of price controls under the health care plan proposed by President Bill Clinton, took a conciliatory approach yesterday, applauding the president's aim of reducing costs and extending coverage.

However, leading insurance companies continued to oppose the ceiling on insurance premiums proposed in earlier drafts of the plan.

They claimed that the growth of managed care arrangements in recent years has already helped to bring down the costs of health care and that price controls would interfere with this process.

Met Life, one of the big five health insurers, said it agreed with Mr Clinton's belief in managed competition, but added that his plan "also contains extensive price controls, payroll-based financing, and regulatory health alliances which would make managed competition unworkable."

Even so, the insurers offered support for the aims of the Clinton reform plans.

Their conciliatory tone was seen as an attempt to defuse tensions between the US administration and the insurers, which have grown in recent days as the insurance industry has begun intensive lobbying over the plan.

Big US companies give welcome but fear extra cost

By Richard Waters in New York

BIG US companies gave a subdued welcome to the Clinton plan yesterday, expressing support for an overhaul of the health care system but concern about the extra bureaucracy and cost that it might bring.

Xerox, which was singled out by President Bill Clinton in his speech to Congress on Wednesday night for bringing down the cost of health coverage for its employees, was among those to express caution about the reforms.

"We think there could be extra costs for a company like us, just in keeping the government informed of what we are doing," Xerox said. Under the Clinton plan, companies which operate their own managed care arrangements, and which have more than 5,000 employees, will be able to offer health care as now. However, they will have to show they meet certain standards and report regularly to state regulators.

Like other big companies, Xerox said it was too early to assess the impact of the president's proposed payroll tax on companies which continued to offer their own health plans, outside the "health alliances". However, the proposed tax, yet to be quantified, was one of the main reasons for the muted reaction from big business yesterday.

Companies in industries likely to benefit from the changes, meanwhile, were more forthcoming with their praise for the plan. The big three US car companies, among those expected to benefit most, all issued statements supporting the plan. "Credit should be given to President Clinton for finally forcing the issue – his six-principle plan is the most comprehensive and far-reaching ever offered," said Mr Harold Poling, chairman and chief executive of Ford.

Chrysler added that, by controlling overall health care spending and spreading the costs among businesses more evenly, the plan would "stimulate the economy and promote job growth."

The big car companies would benefit from the proposal to shift some of the health care costs of early retirees to the state, and from the planned ceiling on health care costs for employees, put at 7.9 per cent of total payroll costs.

Small business representatives continued to oppose the requirement that all employers meet at least 80 per cent of their employees' health care costs. Mr Jack Faris, president of the National Federation of Independent Businesses, said small businesses were "appreciative" of the president's efforts in tackling one of their biggest and most troubling costs. However, he added: "Forcing employers to pay for health insurance is nothing more than a hidden, regressive tax on jobs. It falls most heavily on those who can least afford it – smaller, marginal businesses and their lower-wage employees."

Mr Faris also warned that the new arrangements could turn out to be more costly than projected in the Clinton plan. "Small business owners will have few options to contain costs if the system fails or is slow to get started," Mr Faris said.

Coverage and a card for all

George Graham lists the main promises in the package

THE CENTRAL promise of the Clinton health plan is coverage for everyone from the cradle to the grave. All US citizens and legal residents would receive a health security card, the size of a credit card, guaranteeing a defined package of benefits as extensive as most plans offered by big US companies today.

Guaranteed coverage:
Nobody could be refused coverage because of an existing health condition or the illness of a dependent. Insurance companies would have to apply "community rating" so that everybody would pay the same premium regardless of age or state of health.

Benefits would include preventive care, doctor visits, hospital care, prescription drugs, emergency services, mental health care, treatment for drug and alcohol abuse, expanded home care for long-term patients, eyesight and hearing treatment, and dental care for children.

Coverage would start in some states in 1995 and be fully phased in by the end of 1997.

Health alliances:
Each state would create one or more regional health alliances, which would function as purchasing co-operatives, bargaining with insurers to obtain the best rates on health plans.

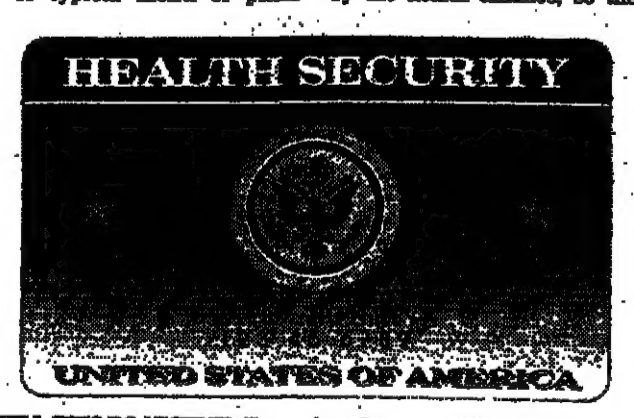
Most people would be enrolled in these alliances through their employers, as would self-employed individuals, part-time workers and the unemployed. Companies with more than 5,000 employees would be free to opt out, but would be taxed for this.

Alliances would offer members a menu of different health plans, including at least one plan with traditional fees for service coverage.

Health plans:
Alliances would conduct an "open season" once a year (just as the US government does today for federal employees), in which members could choose to switch health plans.

A typical menu of plans would include a high-cost option like many current insurance plans. That is, customers could choose their doctor but would pay any cost above what is called a deductible – for individuals $200 (£132) a year, for families $400 – plus a separately calculated 20 per cent, called a co-payment, of virtually all charges.

The lowest-cost option would probably involve enrolment in a health maintenance organisation (HMO), with no annual deductible and just a $10 fee for each visit to the doctor. However, the customer would have to pay 40 per cent of the cost of any visit to a doctor outside the HMO.



WILL THIS DO NICELY?: Every American would have one Photo: AP

A middle-cost option might have higher monthly premiums but lower co-payments if the customer were to choose a doctor outside the HMO.

Who pays?:
Employers would be compelled to pay at least 80 per cent of the average premium charged by the health alliance, so the amount paid by each individual would depend on whether they chose a cheaper or more expensive plan.

The amount any employer would have to pay would be capped at 7.9 per cent of the payroll, with additional discounts on a sliding scale for businesses with fewer than 50 employees so as to reduce their contribution to a level between 3.5 and 7.9 per cent.

If employers offer more than the standard package, this will progressively become a taxable benefit.

The jobless would continue to pay the 20 per cent employee share, but employed and unemployed would receive a discount if their incomes were less than 150 per cent of the poverty level.

Self-employed people would be able to deduct 100 per cent of their premiums from their taxable income.

Cost controls:
The health alliances are expected to bring market forces to bear on the health insurance market, and administrative savings are expected from simplified paperwork.

However, the plan also includes an enforceable cap in the rate of growth of health insurance premiums. These are expected, by the end of the decade, to be held to the rate of inflation.

Financing:
The plan needs to finance both the expansion of coverage to the estimated 37m people with no health insurance and the increased benefits such as prescription drugs and home care – in all, new spending projected at $45bn in 1996 and rising to $83bn in 2000.

Most projected savings come from controlling the growth of the Medicare and Medicaid programmes, two existing federal health plans covering the elderly and the poor. The plan forecasts savings rising from $14bn in 1996 to $86bn in 2000.

An extra 75 cents to $1 tax on a packet of cigarettes, and a tax on big companies that opt out of regional health alliances, would together raise $15bn to $16bn a year.

The programme is forecast to cost the federal government a net $14bn in 1996-1997, but to save it $86bn in the next three years.

IMF chief warns of Gatt danger

By Peter Norman, Economics Editor, in Washington

MR Michel Camdessus, the managing director of the International Monetary Fund, yesterday warned that the world could forget about the prospects of stronger growth if negotiators failed to bring the Uruguay Round of trade talks to a successful conclusion.

He said the trade talks were the number one item on the world's economic agenda and leadership was needed on all sides to complete them.

A full agenda faced the ministers and central bank governors from the IMF's 178 member countries in the days ahead, he said. The world economy was facing several problems which could have a "devastating" effect if trends were not reversed.

He singled out high and rising unemployment, anaemic growth, the weak fiscal situation in many countries and protectionist pressures as negative factors weighing on the global economy.

Mr Camdessus said the world should build on its success in lowering inflation and the "outstanding" performance of many fast growing developing nations to achieve greater growth.

He said countries should press ahead with structural adjustment programmes to modernise their economies, open their domestic markets to imports and press ahead with fiscal consolidation as soon as recovery was established.

He called on European nations to make their labour markets more flexible and urged those countries with room to manoeuvre to cut their interest rates.

The IMF managing director also urged a strengthening of the international monetary system through greater co-operation in the G7, more economic convergence among members of the Europeam Monetary System and greater acceptance of surveillance of economic policies by the IMF.

He said he hoped that the annual meetings of the IMF and World Bank would move towards agreeing finance for a successor to the Enhanced Structural Adjustment facility.

Mr Camdessus said he would be satisfied if some progress were made towards a new allocation of Special Drawing Rights, the IMF's own reserve asset, to Fund members.

هكذا من الأجل

Insurers applaud warily

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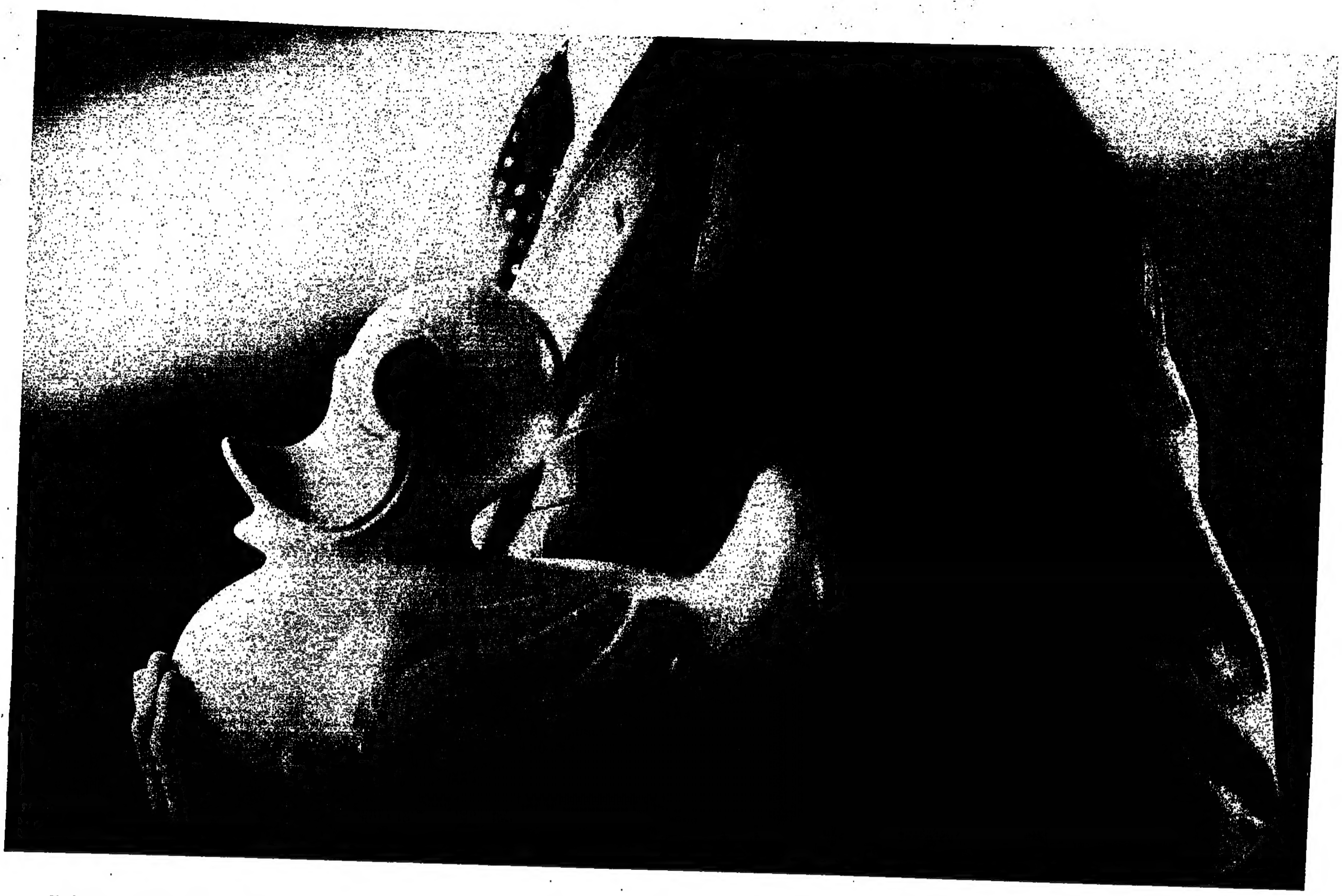
When you arrive in London expect heavy showers. Not to mention fluffy towels and a powerful hairdryer.



It's 7 o'clock in the morning. You've just arrived and it's time to turn your mind to the day's work ahead. Unfortunately your body's got other ideas.

After a night of travel what it really wants is a day of rest. Preferably with lots of hot water, fresh clothes and cups of coffee thrown in.

We can't provide the day of rest, but at least we can help with the other items. The new Arrivals Lounge at T4 really is a sight for red-eyes.

There you'll find piping hot showers with towels provided. And shampoo and shaving kits available on request. (Rubber ducks, regrettably, are not currently provided.) There's even a valet pressing service to smooth out the wrinkles in your clothes, while you attend to ones on your face. Any wrinkles in your work meanwhile, can be quickly ironed out by using the phones or fax machine.

And if you want to grab every precious last second of sleep on the plane, you can catch up on breakfast in the lounge. As it's open all morning, you can refuel anytime you want. There's fresh fruit for taste buds still needing a wake up call. And decaf, if by now you're in danger of becoming too wide awake.

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Knesset endorses peace accord with PLO

By Julian Ozanne in Jerusalem

ISRAEL'S historic peace agreement with Palestinians was solidly endorsed by the Knesset (parliament) yesterday, allowing the process to continue without a referendum or early elections on the accord.

The vote of 61 to 50, with eight abstentions and one absent, was a good result for Mr Yitzhak Rabin, prime minister, and will take momentum away from the right-wing campaign to scuttle the peace process.

Among the eight abstentions were three members of the right-wing Likud party, exposing divisions within the opposition over the Israeli-Palestinian peace deal.

Mr Meir Sheetrit, one of the three Likud abstainers, said after the vote that a further seven parliamentarians from his party would also have abstained if Likud had not imposed party discipline but allowed a free vote.

"A gap of 11 members of the Knesset between the supporters and the opponents gives the government the freedom of action to implement [the agreement]," Mr Rabin said.

Under yesterday's vote the Knesset formally approved three separate agreements: recognition of the Palestine Liberation Organisation, the peace accord with Palestinians providing for self-government and Israeli military withdrawal from Gaza and Jericho, and an agenda for peace negotiations with Jordan.

The ultra-orthodox Shas party, one of Mr Rabin's coalition partners which broadly supports the peace process, also abstained after failing to win support for a referendum.

Mr Arye Deri, leader of Shas and a former interior minister, said in the debate that although there were many "worrying points" about the agreement regarding the security of Jewish settlers in the occupied territories, the accord remained the key to peace with the Arabs. "It is impossible to vote against a chance... to reduce the possibility of war, the threat of war against Israel," he said.

Winding up the debate, Mr Shimon Peres, facing regular outbursts of heckling from right-wing opponents, said: "We can buy a ticket... to the dark and gloomy 19th century, to the middle ages of fundamentalism, or to the 21st century. The 20th century is over. Either backward or forward."

The right-wing opposition, led by Likud and backed by tens of thousands of demonstrators outside the Knesset, vowed to continue the campaign against the peace agreement. Mr Benjamin Netanyahu, Likud leader, said the opposition would continue to press the government to call elections before deciding more sensitive issues such as the status of Jerusalem, a Palestinian state, and the right of return of Palestinian refugees.

Reuter

Israeli soldiers carry away an ultra-nationalist Jew protesting at Israel's accord with the PLO in the occupied West Bank yesterday

Palestinians train as keepers of law and order

By James Whittington in Amman

EACH MORNING young unemployed Palestinians gather outside the Jordanian-based Palestine Liberation Army (PLA) headquarters in Amman hoping to join the ranks of policemen who will be charged with keeping the peace in the Gaza Strip and West Bank town of Jericho.

High up on the desert hills outside Amman their successful compatriots are already being trained in riot control, anti-terrorist measures, forensic science and crime investigation at Jordan's Police Academy. Twenty of them yesterday carried out a mock crowd control exercise armed with shields, helmets and batons. Dressed in dark blue uniforms, with the PLA insignia of an eagle wrapped in the Palestinian flag stitched to their berets, they stripped down their M-16 rifles and explained what their role in a Palestinian entity might be.

"We will be there to follow the duties of any policeman – to protect our people from everyone and everything," says Captain Faisal Mahmoud Mustapha who hails from Nablus on the West Bank. "We want to protect both Jews and Palestinians," he adds.

Captain Mustapha along with another 400 policemen began their training this month and expect to be deployed in Jericho by October.

A superior from the PLA, Brigadier Mohammad Qudsyeh, brushes off suggestions that the police force may be pitted against extremist Palestinian groups trying to wreck Mr Yassir Arafat's peace accord. "I'm astonished that you think we will start killing. We will quell our opponents through dialogue," he argues.

Soldiers from the estimated 12,000 strong PLA which is scattered throughout the Arab world are due to be moved to training camps in Jordan and Egypt by the end of the year before deployment to Gaza and Jericho. Until recently, they were taught to use rifles against the "Zionist entity" but most will now be retrained as peacekeeping policemen.

Meanwhile a recruitment drive has begun in the occupied territories with newspaper advertisements inviting both male and female applicants aged between 18 and 35 to apply for the Palestinian force. Mr Faisal Husseini, who heads the Palestinian delegation to the Middle East peace talks, says the police force will eventually number 30,000.

SA approves transitional executive

By Patti Waldmeir in Johannesburg

SOUTH AFRICA yesterday took a further historic step to end exclusive white rule when parliament passed a bill to establish a multiracial Transitional Executive Council, a move which will trigger the lifting of all remaining non-military sanctions.

Passage of the bill marks the symbolic end of white hegemony and economic isolation. The transitional executive, which will bring blacks a share of power for the first time, will boost black morale, while the removal of 30 years of economic sanctions will help the morale of most whites.

However, right-wing whites have vowed to fight the transitional executive. Members of the ultra-right Conservative party walked out of the chamber yesterday after President F W de Klerk's ruling National party passed the bill by 211 votes to 36 in a parliament which excludes blacks.

Parliament's assent followed an accord two weeks ago at the multi-party constitutional negotiating forum. The African National Congress had, however, said the passage of the bill through parliament was a condition for the lifting of non-military sanctions.

Mr Nelson Mandela, ANC president, is expected to call for the removal of remaining sanctions – apart from the international arms embargo – when he addresses the UN today in New York.

Lifting remaining sanctions is likely to have little practical impact, as foreign investment is severely constrained by political violence which has left 10,000 people dead since political reform began in 1990.

However, passage of the transitional executive bill should permit Pretoria to re-establish normal relations with the International Monetary Fund, which is likely to provide some $850m (£536m) from its compensatory and contingency financing facility to compensate South Africa for losses incurred as a result of severe drought in 1992. Good relations with the IMF will also improve South Africa's ability to borrow commercially overseas.

The council, which will include one member from each of the 20-odd parties negotiating a new constitution, will take office only after agreement has been reached on a new constitution – a process which could still take some months.

Although Mr Roelf Meyer, constitutional development minister, said the TEC executive could be in place by next month, installation in November or even December seems more likely.

The TEC could provoke a further upsurge in violence, with the Conservative party and the Inkatha Freedom party of Chief Mangosuthu Buthelezi vowing to oppose it.

The council will have legally binding powers to act, but only in areas directly affecting the coming multiracial elections planned for April 27 next year.

Reform 'failing' in sub-Saharan African states

By Michael Holman in London and Peter Norman in Washington

ECONOMIC reform is failing in sub-Saharan Africa and its crisis will deepen unless finance ministers attending the IMF/World Bank meeting in Washington help resolve the region's "crushing" external debt burden, officials of Oxfam, the international aid agency, warned yesterday.

"After a decade of structural adjustment programmes implemented under the tutelage of the World Bank and the IMF, Africa remains trapped in a downward spiral of economic and social decline and poverty is increasing," the agency said in London.

"There is now overwhelming evidence that existing adjustment policies have failed in two ways," the statement continued. "They have not created a platform for sustainable recovery and have not addressed the central challenge, correctly identified by the World Bank, of alleviating poverty."

However, the Bank's policies "suffer from inappropriate design, inadequate funding and poor implementation", the statement continues. Some of the sharpest criticism is reserved for the IMF, whose role in Africa should be reviewed by an international committee reporting to the United Nations, Oxfam said.

Mr Michel Camdessus, managing director of the IMF, yesterday strongly defended its role in Africa against Oxfam's charges while admitting that the situation in Africa was "a matter of immense concern" and the continent almost appeared to be sinking.

But he argued that there were countries in Africa that were growing and that these were the ones that had followed IMF economic reform programmes which had allowed increased output and exports. Countries such as Mozambique, Uganda, Ghana and Ethiopia were all benefiting from IMF-inspired policies.

More could be done, he added. There was scope for greater regional integration in Africa. Those countries which had not embarked on structural adjustment programmes must put their macro-economic policies in order. But he said the west should do more to reduce the burden of Africa's official debts.

Oxfam says the speed at which IMF programmes require governments to reduce budget deficits is "totally unrealistic and destructive". The statement calls for longer time frames and "more selective introduction of trade liberlisation measures."

Oxfam accuses the Bank and the Fund of complacency in the face of problems caused by sub-Saharan Africa's external debt that now "exceeds $183bn [£120bn] – more than three times the level in 1980".

Oxfam officials urged the Bank and Fund to "spearhead the case for effective debt relief" which reduced servicing to a maximum ceiling of 15 per cent for low-income countries.

Prince Norodom Sihanouk greets a guard of honour on his return to Phnom Penh to sign Cambodia's new constitution Associated Press

Keating fails to budge budget

By Nikki Tait in Sydney

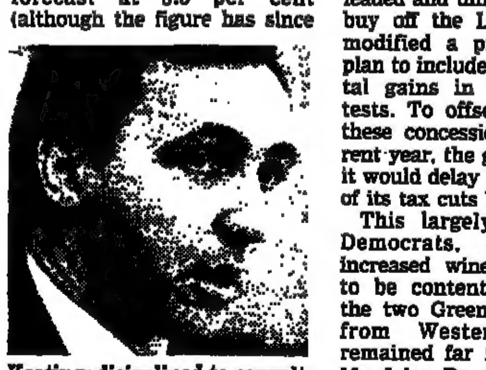
FIVE WEEKS after it was unveiled, the Australian government's first post-election budget bill still lacks sufficient support to pass the Senate. The resulting economic uncertainty has contributed to a plunge in the nation's currency.

The Australian dollar stands close to 65 US cents compared with more than 68 cents when the budget was announced on August 17, although an increasingly bleak outlook for commodity prices also bears some responsibility.

The exchange rate might be lower still but for remarks on Tuesday by Mr Bernie Fraser, the Reserve Bank governor. These suggested that the authorities might have to consider an increase in interest rates to protect the currency from large falls. "To date, we have achieved our objectives with intervention," said Mr Fraser, "but if necessary, we would also use interest rates."

The roots of the budget problem lie in the 1993 election campaign, which the Labor party of Mr Paul Keating, prime minister, was not expected to win. After the surprise victory, the new government found itself committed to some expensive promises on the expenditure side, but lacked much leeway over how it could finance them. As a Price Waterhouse analysis noted at the time: "The real focus of the 1993-4 budget is about the funding the promised tax cuts– cuts that are to apply to businesses and certain lower-income earners."

The solution chosen depended heavily on indirect taxation. Much of the "pain" required to pay for the spending measures was to come from an immediate increase of one percentage point in all wholesale sales tax rates; increased taxes on wine, cider, tobacco products, petrol – especially unleaded petrol – and from a broadening of the fringe benefits tax net. This strategy, it was admitted, would push up inflation; the 1993-4 rate was forecast at 3.5 per cent (although the figure has since



Keating: disinclined to consult

been the subject of some controversy), compared with an average 1 per cent in 1992-3. The budget deficit, meanwhile, was predicted to rise from A$14.6bn to A$16bn (£6.2bn to £6.8bn).

In many respects, the budget measures were unsurprising. But they left the government open to attack. Within days, the opposition – despite being two votes short of a blocking position in the Senate – had decided to make a fight of the issue. That left the balance of power with two minority parties: the Australian Democrats, who have seven senators, and the Green party, which has two. They duly joined the rout.

Embarrassingly, the government's own bedrock support, the Australian Council of Trade Unions and the Federal Labor party caucus, decided that the regressive nature of some proposed tax changes was unacceptable.

After some heated exchanges, the government yielded. To pacify the Democrats, it increased a tax rebate for low-income earners, reversed a decision to exclude eye tests from Medicare rebates and lowered the proposed differential between leaded and unleaded petrol. To buy off the Labor caucus, it modified a previous budget plan to include unrealised capital gains in pension assets tests. To offset the effect of these concessions in the current year, the government said it would delay the introduction of its tax cuts by two weeks.

This largely placated the Democrats, although the increased wine tax continues to be contentious. However, the two Green senators, both from Western Australia, remained far more obdurate. Mr John Dawkins, the treasurer, met the senators two weeks ago, but was left holding a long shopping list of proposed budget changes – from a freeze on defence spending to an increase in unemployment payments. He declined to budge, and a stalemate ensued.

There, during the current parliamentary recess, matters stand. In theory, a failure to pass the bill once parliament sits again next week could lead to "double dissolution" – that is, the dissolving of both houses of parliament and the calling of a new election. That has happened before, in 1974, although Labor was re-elected.

In this case, none of the budget's opponents has seemed anxious to pursue such a drastic course – perhaps partly because there might little electoral gain at the end of the day. Meanwhile, a good deal of political point-scoring has also been under way. Highly publicised opposition from the Labor caucus, for example, has been interpreted as an attempt by members of the party to trim Mr Keating's sails. The prime minister, after all, is often viewed as a rather remote figure, disinclined to consult with the rank and file.

The budget's form as well as its content has been attacked. Unusually, the government had packaged the finance proposals into one bill, in an attempt to prevent its opponents from picking off specific measures. However, legal opinion has suggested that this may be unconstitutional.

So, on Tuesday, Mr Dawkins ate more humble pie, and said that the package would be redrafted into eight bills. This, he maintained, would "preserve the integrity of the budget and allow the government to achieve its medium-term fiscal strategy".

In an effort to ensure that the bills do not pass or fail selectively, Mr Dawkins added that the government would not implement the tax cuts unless the revenue bills were also approved. However, the opposition has made clear its continued objection to certain revenue measures, the Greens still want modifications, and the Democrats remain unhappy about the wine tax.

At the end of the day, the strain on government members – especially Mr Dawkins – is clearly telling. "Whenever it becomes necessary for me to leave Fremantle [his home town], get on a plane and come to Canberra, the prospect of political retirement does well in my mind," the treasurer confessed this week.

This incautious remark was duly whipped up into a resignation threat by the Canberra press, although Mr Dawkins' office denied that the embattled treasurer had meant anything of the kind.

Sudan's civil war dispirits aid agencies

'The outside world is feeding this war.' Leslie Crawford reports

AS SUDAN'S bitter civil war enters its tenth year, the United Nations and western relief agencies are spending $200m (£132m) to feed and shelter hundreds of thousands of families displaced by the conflict.

The international effort to ward off starvation in southern Sudan is both larger and more costly than the media-lit operation in Somalia last year. Operation Lifeline Sudan, the UN group co-ordinating relief efforts, estimates 1m people cannot feed themselves. The war has robbed them of their homes, their land and their cattle. There is no trade because the cash economy has collapsed.

The UN's attempts to secure "corridors of tranquility" for the passage of food convoys have been shortlived. So UN cargo aircraft drop as much as 1,500 tonnes of food a week over an area three times the size of Britain. In some areas, relief workers are flown in and out on a daily basis because their safety cannot be assured overnight.

This kind of relief operation does not come cheap. Conservative estimates put the cost at $4m a week. And although non-governmental organisations (NGOs) report that the immediate threat of starvation has been averted, many relief workers have begun to question the expense of a humanitarian gesture which can only alleviate the symptoms of the Sudanese malaise. The cure can only come with the end of the war.

Mr Marcus Oxley, of the Irish charity Concern, says NGOs are now faced with the impossibility of planning any long-term development work because of the conflict. "Dealing with the famine emergency was the easy bit. But what can we do now? NGOs do not have the power to solve Sudan's political and military conflicts."

Some relief workers, frustrated by the endless displacement of southern communities and the swelling refugee camps in Uganda and Kenya, believe the humanitarian effort has been misguided.

"The outside world is feeding this war," says Mr Philip Winter of Save the Children Fund. "It is impossible to prevent combatants getting hold of food relief. Government troops eat it. The southern rebels eat it. And nobody wants to make a fuss about it."

Dispirited UN officials say they have no option but to work through whichever military faction controls areas targeted for relief.

They cannot quantify how much food is syphoned off to feed the fighters. And they see no hope of an immediate ceasefire.

The Khartoum government, led by General Omar al-Bashir, has recaptured several towns in southern Sudan since the Southern People's Liberation Army split into two rival factions in 1991.

But for most of this year the Moslem Arab north has done little more than watch its black and predominantly Christian southern countrymen massacre each other in the struggle for hegemony over the rebel movement.

"Most of the hunger and displacement this year has been caused by fighting among the rebel SPLA factions," says Ms Sally Burnheim of Operation Lifeline Sudan.

Unlike the faltering UN operation in Somalia, the UN humanitarian mission in Sudan has no mandate to broker a peace accord. One ceasefire mediated by the US this year collapsed almost as soon as it was signed. Four attempts to bring the rival SPLA factions together have failed.

It is unlikely Washington will be able to play a further peacemaking role, after accusing Khartoum of harbouring terrorist groups.

But if US concern with Islamic fundamentalism grows, southern Sudan could become a flashpoint in the struggle to contain its spread.

Already, President Yoweri Museveni's government in Uganda is believed tacitly to be supporting Mr Garang's SPLA faction.

Mr Garang's guerrillas form a convenient buffer between Islamic fundamentalist militias sitting in the Khartoum-controlled garrison towns of southern Sudan and Uganda's northern provinces.

Mr Garang accuses his rival, Mr Machar, of accepting military supplies from the government in Khartoum.

Mr Machar denies he is supping with the devil. Washington suspects Khartoum is being supplied by Iran and China, which is denied by the parties involved.

"The international community appears to have run out of ideas to solve Sudan's intractable conflict," says Mr Winter. He believes western donors would make better use of their money if they employed it to find an end to the war.

هكذا من الأصل

KIO, BP and the $5bn shell game

Robert Peston and **Peter Bruce** explain how a ruse by Kuwait may have cost the Inland Revenue over £600m

VERY few people in the City of London have ever heard of the late Trevor Ball. Even fewer know that for a decade this east Londoner who left school at 16 was one of the most powerful money managers in the world.

Officially Ball was the chief investment manager of Kuwait's international investment arm. In reality looking after the Kuwait Investment Office's mainstream investments – on behalf of the state fund, the Reserve for Future Generations – was only a part of his responsibilities.

Until his sudden, premature death in 1991, he controlled $5bn on behalf of a secret client, the Kuwait Petroleum Corporation, the emirate's national oil company.

The KIO's investment activities are enormously discreet. But secrecy was particularly important in the case of Ball's activities. He worked from a cramped office on the fourth floor of St Vedast House, an anonymous City block. From here he played a central role in an elaborate stock market ploy during late 1987 and early 1988, in which the KPC, hiding behind the KIO, bought a 21.7 per cent stake in British Petroleum, then the world's third largest oil company. It was a ruse that may have cost the British taxpayer at least £600m.

Failure to disclose the true ownership of a stake in a UK company is also an offence under the Companies Act. So disclosure of KPC's role in purchasing the BP stake is likely to embarrass both Britain and the oil-rich Gulf state for whose freedom from Iraqi occupation British troops fought in 1991.

At the time of the $1.7bn BP share raid, Kuwaiti officials and ministers insisted this was just the biggest of a series of substantial KIO investments in blue-chip companies around the world. Kuwait also said the KPC was not involved at all. Even so the move stirred up great political controversy.

BP was concerned that a substantial shareholding was being acquired by the investment arm of one of the world's biggest oil producing countries. The raid was particularly embarrassing for the UK government, since it had only been made possible by the flop of the stock market sale in October 1987 of the government's 31.5 per cent shareholding in BP.

"However, the fact that KPC was the real purchaser of the near 22 per cent stake means that the position for the British oil company BP was even more perilous than it believed.

A former high ranking Kuwaiti official has confirmed to the Financial Times that the KPC was indeed the real purchaser. He has asked not to be named because he is concerned about reprisals from the Kuwaiti government.

The former official says that Kuwait deceived the UK government, the Monopolies and Mergers Commission, which investigated the investment, and BP itself. His account has been corroborated by a past Kuwaiti minister and two former KIO employees. This version of events is also supported by copies of Swiss bank statements which show that the KIO manages KPC's funds, a fact confirmed for the first time by Mr Rashaid Al-Badr, current president of the KIO.

In what seems to be more than a coincidence, the KPC's annual report for the year to June 30 1988 shows an increase in its holdings of marketable securities of $1.7bn, which is precisely what the BP investment cost.

Another possible tell-tale sign of the true ownership of the shares is given by a computer print out (made by Mr Ball in early 1990) of all the securities owned throughout the world by the KIO. If BP was a normal portfolio investment by the KIO it should appear on this list. It does not.

KPC ownership of the BP shares is disputed by one former Kuwaiti minister. He admits KPC funds were used to make the purchases, but says that the KPC gave the money to the KIO in return for a portfolio of "money market securities". He insists that the KIO then made the BP investment, as originally claimed, on behalf of the Reserve for Future Generations.

If this were the case, it is odd that income earned on the BP shares has been deposited in the KPC account and even odder that, at the time of the raid, BP shares already owned by the Reserve for Future Generations were transferred to the KPC account.

Even the former minister cannot dispute that at the very least the KPC facilitated the BP investment by providing funding for it, which contradicts what British ministers and the MMC were told at the time.

This latest controversy over KIO activities comes on top of a bitter battle between the KIO's new management and its predecessors. Legal actions have been brought in Spain and the UK against Sheikh Fahad Mohammed Al-Sabah – the former KIO chairman and a distant cousin of the ruling Emir – and against Mr Fouad Jaffar, its urbane former general manager. They are accused of being part of a conspiracy to defraud the KIO through its loss-making Spanish operations.

The former KIO managers say, however, that the new Kuwaiti government is deliberately choosing to ignore evidence that the missing funds were paid to an assortment of governments all over the world during the Gulf crisis in late 1990, to ensure their support for the war against Iraq.

Before the Spanish embarrassment, the KIO had an impressive record as manager of the international investments of the Reserve for Future Generations, set up to generate income for when Kuwait's vast oil reserves are depleted.

Between 1981 and 1991, the KIO received $9.1bn of funds from the reserve and remitted $45.2bn back to Kuwait – generated by a combination of investment income and asset sales. War expenditure reduced KIO assets to around $25bn at the end of 1991 and less today. At its peak, in the late 1980s, it was more than $40bn.

The KIO has never paid taxes anywhere in the world. Because it manages the Reserve for Future Generations it has benefited from the international convention that sovereigns do not pay tax. In 1989, a particularly good year, the KIO earned around $6bn in income and capital gains from its main funds, on which it paid no tax.

Other well known beneficiaries of this sovereign immunity from tax are the oil producing states of Brunei and Abu Dhabi, which have built up substantial portfolios of securities and property in industrialised countries. The justification for a country like the UK providing this tax immunity is that vast amounts of capital are attracted to its markets, which might otherwise go elsewhere. The price in terms of lost tax revenue – running to billions of pounds in some years, according to tax experts – is thought to be worth paying.

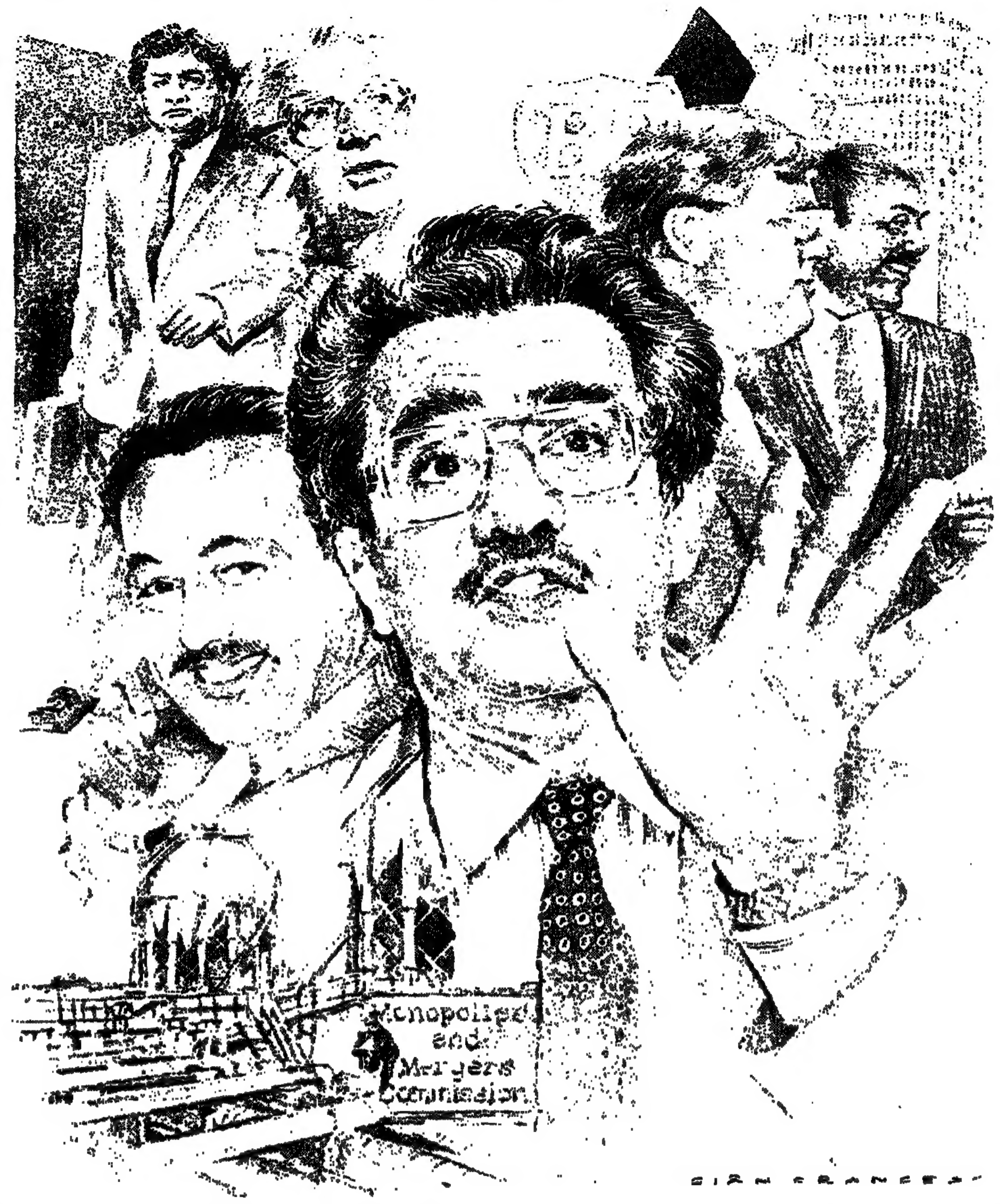
The KPC, however, is not a sovereign as far entity as the Inland Revenue is concerned, even though it is ultimately controlled by the state of Kuwait. It is a company – set up like any other by issuing shares – and is therefore a separate legal entity.

The KPC's assets and investments belong to the KPC and revenue earned from those assets should be liable for tax. But a former Kuwaiti official says that KPC has improperly received tax immunity by hiding behind the KIO. As a result, it may have made tax savings of around $150m a year, excluding a £458m special BP tax credit but including the credit on normal BP dividends.

The Inland Revenue, which is considering the new evidence on the ownership of the BP shares, is in a very uncomfortable position. Before giving tax immunity to the KIO on the BP investment, it received a written assurance from the Kuwait government affirming that the shares were directly held by the state through the KIO – and therefore not by the KPC.

"It is not easy to challenge a statement made by a sovereign," commented a UK official, "especially one of our main allies in the Gulf."

At the centre of this web of complicated stock market deals was Sheikh Ali Al-Khalifa Al-Sabah. The KPC's investment in BP was his initiative, according to a former Kuwait official. Sheikh Ali Khalifa, a man whose impatience and sharp tongue has made many enemies, is a clever and mercurial member of Kuwait's ruling Al-Sabah family. He spent most of the 1980s as oil minister and chairman of the KPC. He refused to comment on the record for this article.



The main characters (clockwise from top left): Nigel Lawson, the former UK chancellor; Sir Peter Walters, British Petroleum chairman; Trevor Ball, chief investment manager of the Kuwait Investment Office; Sheikh Fahad Mohammed Al-Sabah, former KIO chairman; Sheikh Ali Al-Khalifa Al-Sabah, Kuwaiti oil minister and chairman of the Kuwait Petroleum Corporation; Fouad Jaffar former KIO general manager

The KPC generates huge amounts of cash. At the end of June 30 1991, it held marketable securities worth $3.5bn and cash and bank deposits of $5bn.

According to a former official, the KIO received a mandate to manage KPC's cash and investments in the early 1980s. The KPC's funds were held at Swiss private banks, including Lombard Odier, a highly reputed and discreet bank in Geneva. A special KPC account, called the "Number Two Account", was set up.

> The opportunity to buy a significant British Petroleum shareholding was presented in October 1987 by the flop of the stock market sale of the British government's stake in BP and a simultaneous rights issue

Only a tiny number of individuals knew that the KPC was the beneficiary of the Number Two Account, though there is a tell-tale clue on the statements sent by Lombard Odier to the KIO.

A statement copy headed "Number Two," breaks down the investments in the account into different categories according to currency. Each category is designated by a code and each code contains the initials "KP" for "Kuwait Petroleum". The total balance shown in the statement, which is not dated, is $1.27bn.

The Number Two Account was managed by Ball, who had spent most of his working life with the KIO, making his way up from clerk to become the second most powerful non-Kuwaiti at the organisation after Mr Bruce Dawson, the deputy general manager, since retired.

Lombard Odier's statements were sent directly to Ball who was assisted by a couple of clerks and a junior Kuwaiti fund manager. Ball's instructions came from the KPC in Kuwait. For a short period, he set up a series of other Swiss accounts to manage the funds of KPC subsidiaries. But this made the job too onerous for him and his small clerical staff, so eventually all KPC investments were combined into the Number Two Account.

Almost from the moment the KPC was founded in 1980, Sheikh Ali Khalifa wanted to build it up to rival the western oil multinationals, such as Shell and Exxon and BP. The opportunity to buy a significant BP shareholding was presented in October 1987 by the flop of the stock market sale of the British government's stake in BP and a simultaneous rights issue.

Around 2bn BP shares were left in the hands of underwriters facing losses of several hundred million pounds – and many of them were desperate to sell.

The price of the shares on the stock market was hovering around 70p, compared with the underwriting price of 120p. Said one former KIO employee: "We thought it was crazy that something which only days before was thought to be worth 120p could now be bought for 70p."

The KIO had already acquired 13.2m BP shares as one of the underwriters of the issue. Sheikh Ali Khalifa was in London at the time and was enthusiastic about buying more BP shares. He told the KIO to acquire at least 10 per cent of the company. "He said: 'Use my funds'," recalled a former Kuwaiti official. What Sheikh Ali Khalifa meant, according to the official, is that cash in the Number Two Account should be used for the operation. The KPC eventually bought even the KIO's original holding.

> On November 18, BP disclosed that the KIO had acquired just over 10 per cent of its shares. BP was appalled. It was concerned that the Kuwaitis would use the shareholding to put pressure on BP

When the KIO on behalf of the KPC went into the stock market as a buyer of BP shares, it attracted a stampede of sellers. The most astonishing buying spree took place on just four trading days between November 13 and November 18 when 441m shares were bought for around £250m.

According to a Kuwaiti official, the BP shares were divided between the Number Two Account and a then dormant account originally used for a KPC subsidiary, called the Number Four Account. However, to prevent any leak of the ownership of the shares, statements for the Number Four Account, a copy of which has been obtained by the FT, do not include the "KP" initials on the classifications.

There were widespread rumours that the KIO was buying, but only a handful of individuals at the KIO and in Kuwait knew what was really going on. Not even the Kuwait Investment Authority, to which the KIO reports, was aware of the buying until long after it had started. A former Kuwaiti minister said: "The council of ministers [Kuwaiti cabinet] was not informed until it became a political problem."

On November 18, BP disclosed that the KIO had acquired just over 10 per cent of its shares. BP was appalled. Its chairman, Sir Peter Walters, was concerned that the Kuwaitis would use the shareholding to put pressure on BP to do deals which would benefit KPC and Kuwait's oil interests, but would not necessarily be in BP's interests.

The attitude of the British government was initially more ambivalent. Following the share flop, it made a general offer to investors to buy back shares in their partly paid form at a price of 70p. The Kuwait purchases saved it from the embarrassment of buying back more than a few shares.

As the Kuwaiti stake moved towards 15 per cent, however, the then Mr Nigel Lawson, chancellor of the exchequer, became increasingly uncomfortable about the potential for Kuwait to influence BP. However, neither he nor Sir Peter ever thought that the owner of the shares might be the KPC.

All through the winter and early spring, the KIO on behalf of the KPC, continued to add to its shareholding. But Sheikh Ali Khalifa was becoming increasingly isolated from his colleagues by his decision to continue buying aggressively. Sir Dennis Walters, the former Conservative MP who is an adviser to KIO, Mr Jaffar and Mr Jasem Al-Kherafi, the then finance minister, all became increasingly unhappy as the size of the stake increased towards 20 per cent.

Then from the end of December to the end of March, the British government tried to secure undertakings from Sheikh Ali Khalifa that Kuwait would limit the BP holding to less than 20 per cent and would not interfere in the management of the company. But a voluntary agreement could not be reached – and as if to rub salt into the wounds of the British government, Kuwait continued to buy, till the shareholding reached 21.7 per cent for a cost of $1.7bn.

The British government refused to let the matter drop. On May 3, the MMC was asked to investigate whether the investment was in the public interest.

Its report, published in October 1988, says that the Kuwaitis told the MMC that "although BP operated in an industry in which Kuwait had substantial interests, principally through KPC, the BP shareholding was not bought for that reason".

The Kuwaitis also told the MMC that the BP shareholding was "purchased and held by the KIO without any prompting or instruction of the government of Kuwait".

Though the MMC was misled about the real ownership, it might in fact have come up with the same recommendations even if it had known the buyer was the KPC. Its report concluded that the stake could be used to exert pressure on BP to do deals beneficial to Kuwait's oil interests. The KIO was ordered to reduce its holding to 9.9 per cent within a year.

The Kuwaitis were horrified. There followed an intense period of political lobbying and Mr Jaffar went to the US to hawk the stake to any oil company which might be interested in it. He persuaded Pennzoil, the US company, to buy it – but inserted a clause into the agreement which said the contract was void if within a fortnight the Kuwaitis found a purchaser prepared to pay more.

There was indeed such a buyer in the wings – BP itself. For two months, BP had been talking to the KIO about buying enough shares to reduce the KIO holding to 9.9 per cent. In mid-December, Sheikh Ali Khalifa rang Sir Peter. "My price is 305p," he said. That was the price allowing for the payment of the two further instalments due to the UK government on the shares it had sold. At that price, the Kuwaitis would have made a small profit.

BP's tax department had, however, come up with a way of reducing the cost to the company. It pointed out that when a company buys back its own shares, the Inland Revenue usually treats the payment as though it was a dividend. Dividends are paid after deduction of basic rate tax, which at the time was 25 per cent. But a non-tax payer such as the KIO can claim back the 25 per cent.

BP tried to put pressure on the Treasury to ensure that this tax structure for the deal would be agreed, because it meant that part of the cost for buying back the shares would be carried by the government. But the Treasury refused to put pressure on the Inland Revenue.

In the event, the Inland Revenue received a statement from the KIO that the BP shares were held directly by the Kuwait state, a sovereign, and so it confirmed that it would pay Kuwait a tax credit of 58p per share. In the spring of 1989 the KIO, on behalf of the KPC, sold 790m BP shares, receiving £1.95bn from BP and a further £458m from the Inland Revenue.

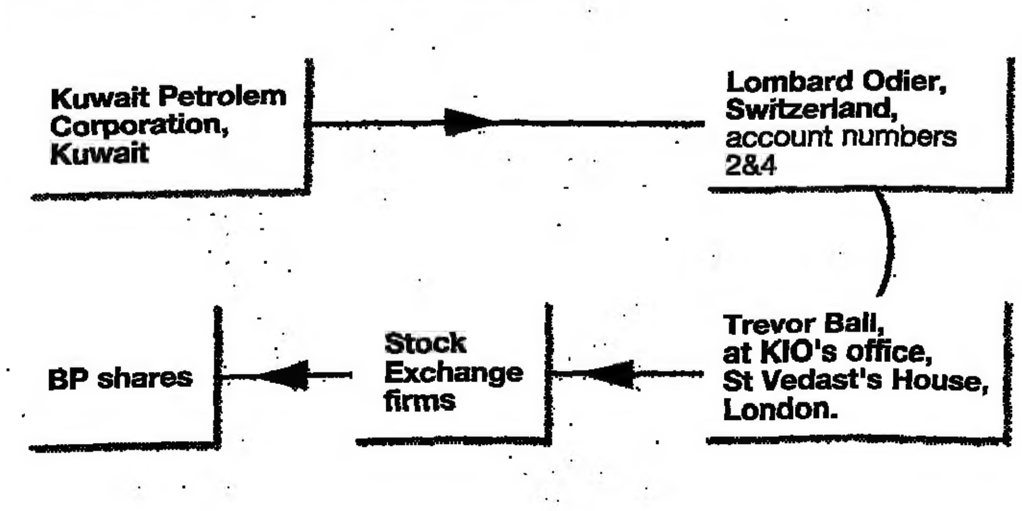
Without the sovereign immunity from tax, the deal would have been far less attractive to Kuwait. Indeed, Kuwait continued to benefit from the sovereign immunity in respect of the dividends it has received from BP on the remaining 9.9 per cent. Tax credits on these dividends have been worth an estimated £156m.

If the Inland Revenue were to conclude that the investment in BP was in fact held by the KPC and did not deserve sovereign immunity, Kuwait would owe the UK government more than £600m in tax on the BP investment alone.

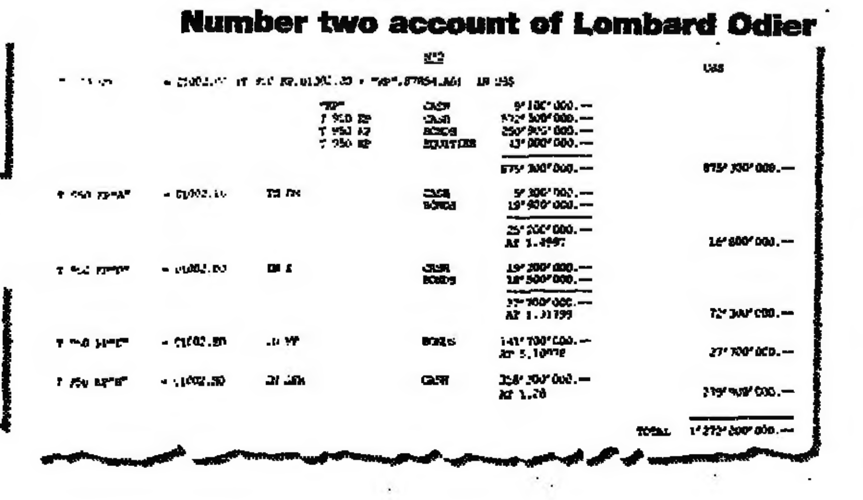
But a UK public official says that the Inland Revenue cannot on its own decide to re-examine whether tax should be paid by Kuwait in respect of its BP adventure. "We would be questioning the good faith of a very rich ally," he said.

In the end, the British government will have to judge whether it is worth offending a very old friend for the prospect of perhaps reclaiming several hundred million pounds.

How the money was circulated



Number two account of Lombard Odier



France tones down strident farm threats

By David Buchan in Paris

THE French government is temporarily toning down the stridency of its campaign against the Blair House agreement in the interest of enabling the European Commission's chief negotiator, Sir Leon Brittan, to conduct his "discreet" bid to revise farm trade terms with the US.

"We are now trying to cool things down," said a senior government official yesterday. Referring to recent French veto threats over agriculture and broadcasting, he said: "You won't hear any more declarations of this kind", at least not until Sir Leon makes a progress report to European Community ministers on October 4.

A sign of this calmer tone came yesterday in reaction to the complaint by Mr Paul Keating, the Australian prime minister, that France was pursuing an "egotistical" trade policy. Mr Jean Puech, France's agriculture minister, replied that such "trumpeting would not advance the Gatt negotiations".

Having himself deliberately raised the temperature of the Gatt farm negotiations – in order to push his EC partners into their September 20 decision to reopen farm trade discussions with Washington – Prime Minister Edouard Balladur has now decreed a return in Paris to calmer diplomacy. This is partly tactical, in deference to Sir Leon Brittan's prediction, stated in yesterday's *Les Echos*, that only "very discreet" pressure on the transatlantic farm trade issue will work with a US administration which is pre-occupied with getting the North American Free Trade Area (Nafta) deal through Congress.

But Mr Balladur is also, at last, trying to prepare his farmers for concessions. "If others make concessions to us, we will make concessions ourselves. One cannot win 100 per cent, but I have no intention of losing 100 per cent," he said. Even that anodyne statement brought complaints from worried MPs of his Gaullist party.

"We are trying to calm down the farm organisations, who only a few weeks or months ago would erupt at the mention of Gatt," an official said yesterday. "Now with a reasonable position [on re-discussing the Blair House deal on farm trade], and with EC solidarity, we are now able to discuss with them what could go into a good agreement on Gatt."

FNSEA, the biggest farm union, said yesterday it had no intention of relaxing pressure. It called for another commissioner to go to to Washington with Sir Leon, who it said was "not trustworthy".

Bid for Vietnam oil

MOBIL, the US oil company, yesterday said it was interested in exploration and downstream business in Vietnam, and would bid for the hotly contested contract to work the Blue Dragon off-shore field, Reuter reports from Hanoi.

A dozen large companies are expected to submit bids by the October 11 deadline for the structure, which some regard as Vietnam's most promising unworked off-shore field.

Mr Robert J. Aberbach, Singapore-based vice-president of Mobil Eastern Exploration and Development, said there was no basis for speculation that the deal was being reserved for Mobil as a lever on Washington to lift its economic embargo against Hanoi.

Other companies expected to bid for the business include Amoco and Phillips Petroleum of the US, Shell (UK-Dutch) and British Petroleum.

Japan warned on trade sanctions

By Nancy Dunne in Washington

US TRADE negotiators this week warned Japan that "radical action" must be taken to improve the current bilateral trade imbalance. If not, the economic relationship between the two will be "irrevocably harmed."

The US trade deficit with Japan stands at some $60bn so far this year, compared with $50bn for all of last year.

Senior US administration officials are in Hawaii, where the two sides have begun to map out the details of the "framework agreement" reached at the Tokyo economic summit in July.

However, the only substantive news from the meetings this week was the release of the figures for market share held by foreign semiconductors in Japan, which fell in the second quarter from 19.6 to 19.2 per cent – the second one-quarter drop in a row.

The US-Japan semiconductor agreement calls for a slow, steady increase in market share, which hit 20.2 per cent in the last quarter of 1992, and US trade officials insist that the average share this year be no less than 20 per cent.

A senior US official characterised the Japanese response to US proposals as "moderately receptive" but said that could change. Mr Morihiro Hosokawa, Japanese prime minister, is to meet President Bill Clinton at the UN in New York next week.

"It is conceivable that instruction has gone out to not make waves," the official said. "But we made it clear that our resolve stems from the White House, [from] public reaction to the economic imbalance in this relationship and the view that Japan's trade policies are a drag on global growth."

Under the framework agreement, the Clinton administration embarked on the latest US attempt to avoid retaliatory trade clashes with Japan, while insisting that sanctions would follow unless there were immediate progress.

Tracking profits to the south

Bernard Simon finds Canadian railways branching into new markets

MENTION Canadian Pacific, and Canadians and foreigners alike are apt to conjure up an image of a coast-to-coast railway snaking through the Rocky Mountains and striking out across the prairies.

That image is rapidly being overtaken by a less romantic reality. Canada's two railway companies, Canadian Pacific and the government-owned Canadian National, are paying less attention to the thinly populated Rockies and prairies, in favour of more profitable business to the south in the US and Mexico.

"With globalisation and free trade, we're seeing the business opportunities being much more north-south traffic flows within the continent, as opposed to east-west," says Mr John Guppy, CN's senior vice-president for marketing. CN recognised the trend last year by combining its Canadian and US operations under a single corporate umbrella, known as CN North America.

The Canadian railways' growing north-south focus is a response to the emergence of an integrated North American market as customs duties are eliminated and other trade barriers fall under the 1989 US-Canada free trade pact. Rail traffic between Canada and Mexico, though still small, is also growing rapidly as business seeks to capitalise on the North American free trade agreement, due to take effect on January 1.

The southbound expansion by the Canadian railways is also explained by rising competition from US railways and road transport. US west coast ports and transport companies have already garnered more than two-thirds of the container traffic from the Far East to Toronto and Montreal.

Mr Gil Mackie, CP's executive vice-president, says the Canadians suffer from a lack of traffic density, which is where US railways have an important advantage through their cost structures. He adds: "If we're going to get the level of efficiency we need, we need to expand our businesses."

The top priority for both CP and CN has been to secure their access from eastern and western Canada to Chicago, the hub of surface transport in North America. CN cemented a western link last year by allying with Burlington Northern, the aggressive US railway company which runs a line from CN's railhead at Duluth, on the western tip of Lake Superior, to Chicago. Under the agreement, CN can run its own trains on BN's track, with only a crew change at Duluth.

In the east, CN's trump card is a proposed C$200m (£99m) cross-border tunnel between the US and Canada, under the St Clair River north of Detroit. The tunnel, due to be opened late next year, is to accommodate the double-stack container trains which have become one of the railways' most potent weapons in their drive to bring down costs. The tunnel is expected to lop 12 hours off the train-and-barge journey from Toronto to Chicago.

CP has taken a slightly different approach. Besides numerous alliances with US carriers, it has bought two US railways: the Soo Line in the mid-west and the Delaware and Hudson in the north-east.

These acquisitions have helped to propel CP into the domestic US market. Mr Mackie says that aspect was an afterthought, but "the more experience we get, the more we understand it and recognise the potential. I think we'll see more and more of our operations within the US."

The opportunities in a wider North American market are matched, however, by the threat from powerful, low-cost US railroads and road transporters within Canada.

Under the 1987 National Transportation Act, Canadian shippers can ask a government agency to impose a freight rate for a carrier competing with CP or CN. The Canadian railway is left to haul the goods to the nearest connecting point with the US carrier – just the type of short-haul business which CP and CN are trying to leave.

The Canadian carriers are working on three fronts to overcome their handicaps.

First, they are lobbying governments in Canada and the US to drop rules which put them at a disadvantage against their cross-border rivals. Canada's high taxes on locomotive fuel and property are one sore point.

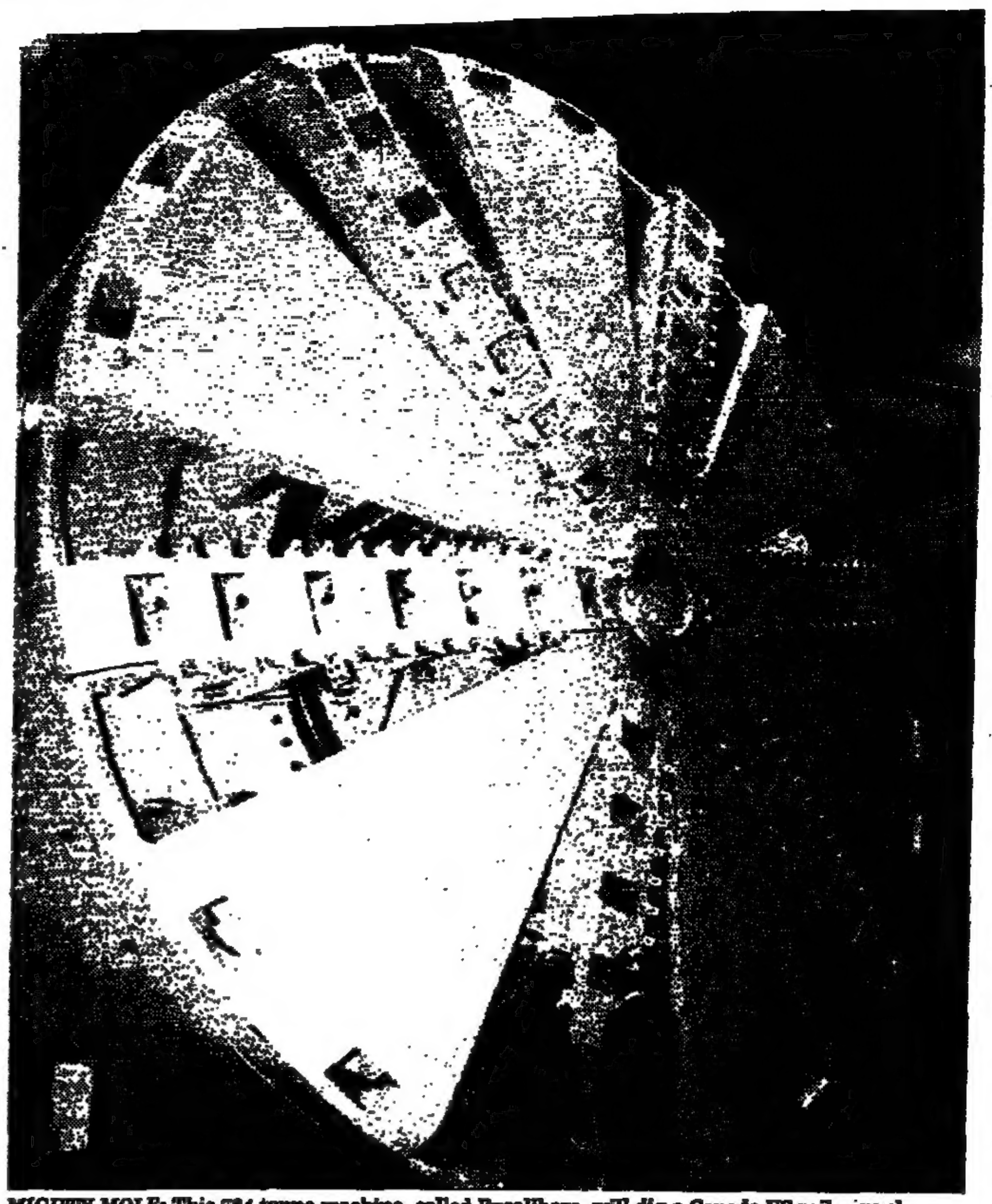
CN and CP estimate that their tax bill is the equivalent of about $200m a year higher than it would be if they were based in the US. Furthermore, US railways can write off their investments almost twice as quickly.

Second, the Canadian companies are pulling out the stops to bring down costs. Their efforts range from the closure of loss-making lines in Canada to greater emphasis on double-stack container trains. One short line has already been bought by a US company, Railtex, which specialises in restoring this type of operation to profitability.

Third, CN and CP are building their North American business on the old adage that, if you can't beat 'em, join 'em. Beside their alliances with US railways – such as Burlington Northern, Conrail and CSX – the Canadian companies are forging links with road rivals on both sides of the border.

These alliances reflect the explosive growth in the past three years of "inter-modal" shipments, involving the use of both road and rail. The goal is for railways to focus on profitable, long-distance routes while trucks act as short-haul feeders.

CN and CP are banking heavily on their "piggy-back" trains, which carry trailers equipped with both truck tyres and train wheels. According to Mr Mackie, CP's piggy-back traffic has reached a new record every month this year.



MIGHTY MOLE: This 724-tonne machine, called Excalibore, will dig a Canada-US rail tunnel

Major rejects drive towards monetary union

By Kevin Brown, Political Correspondent

MR JOHN MAJOR, the British prime minister, today sets out a vision of a wider, free trading European Community in which power is shifted back to national capitals and monetary union is put into abeyance.

In an article published in today's edition of the Economist magazine, Mr Major rules out a British return to the exchange rate mechanism in the strongest terms he has yet used, and warns EC member states that the struggle to ratify the Maastricht treaty has fundamentally changed the Community.

Officials confirmed that the UK government was drawing up plans for a more flexible alternative to the ERM. The proposal is expected to concentrate on inflation targets, and might be open to countries outside the EC.

Mr Major's comments represent a British attempt to preempt further discussion of economic and monetary union at the special EC summit planned for next month. His remarks are also intended to reassure the Conservative party's Eurosceptic wing that the government shares its desire to reduce the influence of the EC over national parliaments.

The prime minister's advisers hope that the tone of the article will help to marginalise the handful of hard-right backbench MPs who have threatened to force a divisive leadership election in the autumn.

However, officials said Mr Major's main aim was to encourage the October summit to concentrate on achieving a workable Gatt agreement, rather than seeking to reopen the debate on monetary union.

Mr Major says there can be "no question of Britain going back into the ERM in the foreseeable future", and warns that "economic and monetary union is not realisable in present circumstances, and therefore not relevant to our economic difficulties".

He adds: "I am not prepared to sit down in Brussels in a few weeks' time and pretend that Humpty Dumpty is whole and well. I care too much about the European Community to pursue Sellotape policies – patching together the unmendable – or to play the politics of illusion – pretending that it was never broken."

Mr Major says the summit cannot debate "the same old stale agenda", and delivers a clear warning that Britain will block further initiatives towards monetary union.

"I hope my fellow heads of government will resist the temptation to recite the mantra of full economic and monetary union as if nothing has changed. If they do recite it, it will have all the quaintness of a rain dance, and about the same potency," he says.

Mr Major says it is "clear now that the Community will remain a union of sovereign states. And in a passage that will please Eurosceptics, he says it is "for nations to build Europe, not for Europe to attempt to supersede nations".

Severiano Ballesteros of Spain pictured in confident mood at The Belfry, central England, ahead of today's opening matches in the Ryder Cup golf between Europe, and the holders, the US

Milk auction plan attacked

By Deborah Hargreaves

DAIRY INDUSTRY executives yesterday attacked proposals put forward by Milk Marque for an auction to set prices and allocate supplies when the industry enters a free market next April. Milk Marque is the proposed successor to the Milk Marketing Board for England and Wales, the statutory farmers' co-operative responsible for allocating milk supplies.

The executives also questioned the legitimacy of the proposals because the government has not yet approved the arrangements under which Milk Marque will operate.

"I'm not sure it's really an auction: it's not even-handed and its not transparent," said Mr Jim McMichael Phillips, president of the Dairy Trade Federation, which represents milk distributors and processors.

Industry executives object to the complexity of the scheme, which has five stages for determining prices with plans to consult widely before final prices are set.

"The fact that all these consultations are built into it leaves it open for wheeling and dealing behind closed doors, and that is not the way a free market should work," said Mr Neil Davidson, group executive at Northern Foods.

Northern Foods plans to buy all its milk directly from farmers when the government's compulsory purchasing system is abolished next year.

MD foods, a British offshoot of a large Danish farm group, has approached farmers about buying supplies directly, but also plans to purchase some milk through Milk Marque.

"I'm unhappy with the way milk will be allocated," said Mr Roger Clarke, MD foods' commercial director, "if there is too much demand for supply and companies need to be scaled back, what basis will they use for that?"

Mr Andrew Dare, chief executive of Milk Marque, said his proposals had received tacit approval from the Office of Fair Trading. But a letter from Mrs Gillian Shephard, agriculture minister, to the federation, says that discussions that have taken place about Milk Marque do not add up to approval of any arrangements.

Vineyard for sale in Garden of England

By Vanessa Houlder, Property Correspondent

ONE OF the UK's largest vineyards, responsible for a tenth of the country's wine production, has been put up for sale at a price of about £1.5m.

Lamberhurst Vineyards, in Kent, south-east England, is being sold by Mr Kenneth McAlpine, a director of the Sir Robert McAlpine construction company.

The UK has about 450 vineyards, mainly in the south-east of England, of which about 200 are cultivated on a commercial basis.

The agents said they expected the vineyard to attract interest from drinks companies and overseas wine producers seeking access to its distribution outlets. The sale has been advertised in New Zealand, South Africa, Australia and California.

Turnover is expected to increase from last year's £800,000 to £1.25m this year because the amount of English wine sold through supermarkets has increased. The wine is now sold through 1,700 outlets including Sainsbury, Victoria Wine, Waitrose, Gateway and Threshers.

The vineyard's best selling line is a blend of white wine that is sold at just under £3 a bottle. The vineyard pioneered the production of English brandy and fruit liqueurs and recently brought one of the UK's few red wine varieties into production. It has won 42 wine awards.

The vineyard was established by Mr McAlpine in 1972.

Domestic power prices 'among Europe's lowest'

By David Lascelles, Resources Editor

DOMESTIC electricity prices in the UK are at the lower end of the price range in EC countries and industrial prices are in the middle, the Electricity Association, a UK power industry trade group, reported yesterday.

In its annual survey of international electricity costs, the association put UK domestic prices at 9.29p per kilowatt hour (kWh).

That compares with Belgium at the top of the range with 13p and Greece at the bottom with 7.68p. Other countries with cheaper rates than the UK were the Republic of Ireland with 8.91p and the Netherlands with 8.28p.

UK industrial electricity prices were put in sixth place at 5.29p per kWh compared with Germany at 7.62p at the high end and Denmark with 4.21p at the low end.

On the world scale, the UK ranks 11th for domestic prices and eighth for industrial prices.

The most expensive country in the world on the domestic scale is Belgium, and on the industrial, Japan.

The association says that the prices were calculated "on a rigorous like-for-like basis". However they are certain to be challenged by UK industry which has argued that British electricity prices are much higher than in the large industrial economies of mainland Europe, and impose a competitive handicap.

Rise in competitiveness of ports is held back

By Robert Taylor, Labour Correspondent

BRITAIN'S ports have grown more productive and competitive since the government abolished the registered dock labour scheme four years ago, according to a research report published yesterday by the Department of Employment. But it added that the adverse economic climate since 1989 had "prevented former scheme ports from realising all the benefits of abolition".

The study was carried out by the Peida and MDS Transmodel consultancies. "Many predicted wider benefits of abolition have yet to be fulfilled," it argued. "But abolition has created the conditions for viable port-related investment, and will enable other developments to take place as the economic recovery continues."

The scheme, set up in the 1940s, gave dockworkers substantial guarantees on job security and pay. The department's report said improved productivity since the scheme was abolished had not led to a reduction in the prices to port users but had increased the profit margins of the port employers.

Insurer group's ex-directors face disqualification move

By Andrew Jack

THE DEPARTMENT of Trade and Industry is to launch disqualification actions against former directors of London United Investments, the insolvent insurance group, and C R Driver, an underwriter with which it did business, following a highly critical inspectors' report published yesterday.

The report says that about £40m in commissions was "wrongfully diverted" through Driver and H S Weavers, an underwriting subsidiary of LUI, between 1970 and 1989 to companies in Switzerland and Liechtenstein.

These companies were controlled by Mr Graham Smith, an accountant since debarred from the profession, who refused to co-operate with the inspectors.

The report criticises Mr Charles Driver, who now lives in Bermuda, Mr Henry Weavers, who has died, and Mr Peter Wilson. All three were directors of LUI. It also criticises Mr Stanley Mayhew, a director of C R Driver.

The DTI said it was beginning disqualification proceedings, but would not specify against which directors. Its insurance division said it was also considering action to debar any directors from taking positions with insurance companies.

The inspectors' report makes some criticisms of the procedures used by KPMG Peat Marwick, auditors to LUI, to Weavers, and Billsons Cullen, now part of Kingston Smith, which was auditor to Weavers until 1987.

The conclusions appear to lend support to civil and criminal action triggered by the collapse of LUI in 1990 and of associated companies.

The Serious Fraud Office and the City of London police launched an inquiry into suspected offences of fraud at LUI and its subsidiaries following a referral from the DTI in April 1992.

The SFO said yesterday that its investigations were continuing. Requests for assistance from the authorities in Switzerland and Liechtenstein are currently on appeal in the two countries' supreme courts.

The DTI investigation, resulting in a 316 page report, cost £2.3m.

The inspectors were unable to trace the final destination of the money but said they believed Mr Driver, Mr Weavers and Mr Wilson had "derived some financial benefit" from the transactions.

The DTI has also sent copies of the report to the Institute of Chartered Accountants in England and Wales, and to the Lloyd's insurance market, which will consider regulatory action.

Call for reform of UN

Alison Smith on centrist leader's keynote speech

BRITAIN'S centrist third party, the Liberal Democrats, which has recently won two crucial by-election victories, has reached the political "big time", according to its leader Mr Paddy Ashdown.

Mr Ashdown, whose party holds 4,500 local government seats and 22 at Westminster, told delegates that the party now had to be prepared for fierce scrutiny of its plans and attacks from the two main parties, Labour and the Conservatives.

The Liberal Democrats, the party formed from the merger of the old Liberal Party and the Social Democratic Party, is holding its annual conference, the first of the conference season, in Bournemouth on the English south coast.

The Liberal Democrat leader, who is a former member of the Special Boat Service, one of Britain's elite commando forces, used his speech to appeal for the UK to take a lead in reforming the United Nations so that it was better equipped for its peacemaking role.

His most bitter attack on the government came over its conduct of foreign policy, and in particular Bosnia, where he accused it of appeasement.

He called for Britain to allocate troops for a UN standing force, and propose the setting up of a UN peace-keeping agency with its headquarters in the UK.

But the central message of his speech was that the party had a chance to build on the hope which it alone inspired in a society where a dangerous gulf existed between politicians and people. "Hope is a fragile thing. It will be as easy for us to lose as it was hard for us to win," he said.

"If we fail to live up to this opportunity, then this year's success will be no more than just another third party surge which rises and dies again . . . but if we can rise to the challenge, if we can seize our opportunity, then I promise you there us no 'glass ceiling' for the Liberal Democrats".

Representatives also applauded loudly his onslaught on Mr John Major, the UK prime minister, as a "phantom prime minister" whose lack of leadership had led to a Tory party where the difference between public service and private interest was being eroded.

He mocked that culture with the jibe: "I wannabe a Tory because its the quickest way to get rich".

Though Mr Ashdown insists that the Liberal Democrats are "equidistant" between the other two parties, his sustained attack on the Conservatives contrasted with the tone of his remarks about the opposition Labour party.

Ashley Ashwood
Paddy Ashdown: UN should include a peace-keeping agency

Britain in brief

Employers report drop in export orders

Worries about the strength of the recovery have increased after a survey by the Confederation of British Industry, the employers' organisation, showed export orders for manufactured goods slipped this month to their lowest level since April.

The survey, published today, showed a contraction in overall order books between August and September, although companies' optimism about their ability to increase output rose for the ninth month in succession.

The CBI's soundings underline concerns that weak domestic demand and the poor economic climate in key export markets may inhibit the gradual UK upturn. The poll of opinion was conducted between August 27 and September 15. It covered 1,468 companies, accounting for about half total manufacturing employment.

Motor Show to alternate

The UK is to have an annual "official" motor show alternating between London's Earls Court and the National Exhibition Centre in Birmingham. The ruling council of the Society of Motor Manufacturers and Traders decided this week to give its formal support to Motorfair, the London motor show. It has been organised biennually by dealers and promotional group Philbeach Events since the SMMT's "official" motor show moved to Birmingham in 1978.

PIA chief resigns

Sir Gordon Downey, chairman of the Personal Investment Authority, resigned abruptly from the proposed self-regulatory body following regulators' criticism that he was unable to restrain industry interests on the board.

He has been replaced by Mr Joe Palmer, a board member of the Securities and Investments Board, the City's chief watchdog, and a former chairman of the Association of British Insurers.

Industry officials said Sir Gordon's departure followed growing concern at the SIB that the PIA board had been too willing to concede to powerful interests in drafting its operating guidelines.

Graduate fees plan delayed

The Committee of Vice-Chancellors and Principals, which represents 102 UK universities, failed to agree on a new funding system for higher education which would make graduates pay part of the costs of their tuition.

The university leaders tried instead to increase pressure on the government by saying that higher education must expand and that a decision on raising extra funds was "inescapably a political one".

Village gets global link-up

The small town of Kington in the Welsh borders yesterday became Europe's first rural community to be fully intergated into the global computer network.

Systems linking businesses, council offices and schools were switched on as part of a scheme to assess the impact of technology in farming areas. Launching the project by video link from New York, Mr Lawrence Banks, vice-chairman of merchant bank Robert Fleming, said local companies would be linked to markets in the US, Europe and the Far East. The government-backed scheme relies on £450,000 of equipment installed by British Telecommunications and Apple Computer.

£23,000 for cat's medal

A medal won by a cat has sold for more than £23,000 - seven times its estimate. The Dickins medal was won by Simon, a ship's cat, for bravery under fire during the Yangtse River Incident in 1949. HMS Amethyst was trapped and shelled by Chinese communists before making a break for the sea. The black and white tom protected the food supplies from rats, retreating to the captain's cabin only when the ship came under direct fire. The Dickins medal has also been awarded to 31 pigeons, 18 dogs and three horses.

Japanese subsidiaries help to push car output up by 25%

European downturn threatens growth, writes Kevin Done

UK car production in August jumped by 25.4 per cent year-on-year to 66,653, but the motor industry warned that cuts announced recently would seriously depress output in the final months of the year.

Car production in the first eight months rose 8.1 per cent to 927,723 from 858,417 in the corresponding period a year ago, in stark contrast to the steep falls suffered elsewhere in west Europe.

However, Mr Geoffrey Whalen, president of the Society of Motor Manufacturers and Traders, which produced the figures, warned that British-based car producers were now being hit by the effects of "the huge fall" in registrations in continental Europe.

"It now appears likely that following a number of production cutbacks the British-based industry will this year produce no more than it did in 1992," he said. The benefit of higher car sales in the UK was being neutralised by the fall in exports to continental Europe.

At the same time the continuing steep decline in the production of commercial vehicles was "a source of great concern".

Output of commercial vehicles in August at 5,428 was 56 per cent lower than in the same month a year before while production in the first eight months of the year has fallen by 29.7 per cent year-on-year to 123,403.

The forecast of unchanged car output for the whole of 1993 was a setback for the industry, which had expected "a considerable build-up of production" in 1993, said Mr Whalen.

Car output in the first eight months of the year has been boosted by the start-up of production by Toyota and Honda at their new plants in Burnaston, near Derby and in Swindon, and by the rapid build-up of output by Nissan at its Sunderland plant.

Nissan started production of its Micra small car range in August last year. The build-up of Micra output during the last 12 months has been the biggest factor driving up UK production and has compensated for falling output by Ford, Vauxhall and Peugeot.

Nissan too was forced to announce earlier this week that it is drastically cutting its production in the last two months of the year, however, and from the late autumn it will no longer be a factor boosting UK output.

Production will continue to climb for the next couple of years at the Toyota and Honda plants, as they develop towards full capacity, however, and this will help to cushion overall UK car output from the full brunt of the recession in Europe.

THE PROPERTY MARKET

SPOTs that fail to leave a mark

Vanessa Houlder on turning debt into securities

"Securitisation ... has its appeal. It removes financial assets from the balance sheets of institutions, reduces property exposure, and potentially frees up capital for new lending ... At the retail end, we could soon see the fuller development of those vehicles that had begun to emerge in the late 1980s, such as SAPCOs, APUTs AND PINCS ... the debate on SPOTS continues"
Pen Kent, associate director of the Bank of England

This endorsement of securitisation – the transformation of property debt into a tradeable security – has struck a chord. It is a subject receiving close attention from property financiers attracted by the prospect of offloading some of the £36bn of debt outstanding to the industry; of injecting more sophistication into the market; and, not least, of its potential for generating fees.

There have been several securitisations in the UK; Rosehaugh Stanhope Development, raised $180m in 1991 in the US commercial property market to refinance one of its Broadgate developments, while the BHH Group issued the first bonds backed by UK commercial property mortgages to be sold in the Euromarkets in 1990.

The scale of UK commercial property securitisations is small compared with the US, where the savings and loans debacle in the 1980s, generated the securitisation of $20bn of commercial mortgages.

One difference between securitisation in the UK and the US may be attitude of banks: US banks, faced with tougher regulators, have been more willing to crystallise their losses.

Another obstacle in the UK is the higher costs involved in structuring the deal. "There seems to be an idea that the costs are prohibitive," says Mr Mark Burton of United Bank of Kuwait, who heads a working party on securitisation for the Association of Property Bankers. He remains optimistic that the problems can be overcome.

The related debate on unitisation – the process of splitting the equity in a building into marketable parcels – has also provoked enthusiasm, tempered by some scepticism.

For the enthusiasts, the upturn in the market and the buoyancy of equities provide fresh opportunities for unitisation. They believe there is untapped demand for property

The Bank of England's endorsement of securitisation has struck a chord

from investors who do not want the management problems of direct ownership and who believe property shares are an inadequate alternative to owning property outright.

But the sceptics doubt the possibility of breathing new life into vehicles such as Single Asset Property Companies (SAPCOs), Single Property Ownership Trusts (SPOTs), Authorised Property Unit Trusts (APUTs) and Property Income Certificates (PINCs), which were devised in the 1980s to improve the liquidity of property.

The sceptics believe these vehicles are too complex and their credibility damaged by their failure in the 1980s.

The only innovative instrument from the 1980s still trading is the APUT, but even their progress has been feeble. Since September 1991 two APUTs have been launched: Barclays Unicorn Property Trust and Norwich Union Property Trust. Commercial property's recession-stained image has deterred potential investors, although the recent upturn in the market has increased enthusiasm. In August, the Norwich Union Property Trust received £300,000 from private investors, a 10-fold increase on its monthly average.

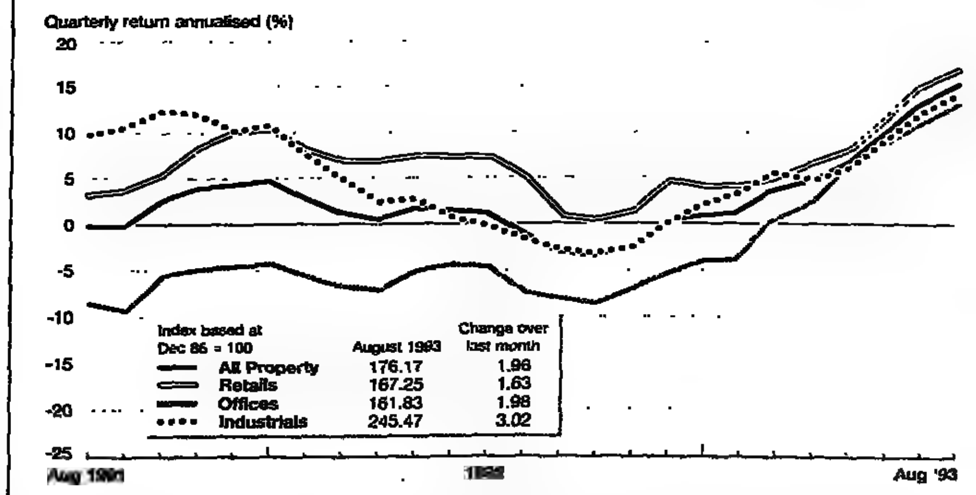
Other unitisation vehicles of the 1980s have been even less successful. A SAPCO was launched in 1988 by Billingsgate City Securities but it provoked only indifference and was taken off the stock market in 1989.

PINCs have been equally disappointing. One of their problems was their complexity. "We were designing the BMW when people were going around in horse and cart," says Mr Stephen Barter of Richard Ellis, property advisers.

But PINCs' main problem was one of bad timing. In the two years that PINCs took to win approval from the Department of Trade and Industry, market conditions deteriorated, making any launch of a property vehicle unattractive.

SPOTs, another 1980s' unitisation instrument, also failed to make their mark, largely because they were not tax efficient. Mr Colin Vaughan of DTZ Debenham Thorpe, property advisers, still believes in SPOTs. "Were the government to take the bit between its teeth and make minor tax changes and were someone to market it, the conditions would exist in which it could be successful."

IPD monthly index for August



RETURNS on commercial property investments fell marginally in August, according to the Investment Property Databank, a research group, writes Vanessa Houlder.

The IPD all-property return fell to 1.1 per cent, the result of a reduction in the rate of capital growth by 0.1 percentage points to 0.4 per cent in August. Yields were shaved off all sectors in August, although the aggregate equivalent yield was unchanged at 9.7 per cent.

With the rate of decline in rental values slowing for the fourth consecutive month, to -0.5 per cent, IPD said there were now indications that the low point in values was not far off.

Total returns were up to 5.3 per cent, while the rate of decline in capital and rental values slowed to -3.9 per cent and -10.4 per cent, respectively.

Office and industrial property showed a total return of 1.2 percentage points in August. Returns on the industrial sector increased by 0.2 percentage points, while office total returns increased by 0.1 percentage points. Retails fell back into third place, recording a return of 1 percentage point.

LEGAL NOTICES

No. 0008791-I of 1993
In the High Court of Justice
Chancery Division

IN THE MATTER OF TRIO HOLDINGS PLC
and
IN THE MATTER OF THE COMPANIES ACT 1985

NOTICE IS HEREBY GIVEN that a Petition was on the 7th September 1993 presented to Her Majesty's High Court of Justice for the confirmation of the cancellation of the Share Premium Account of the above-named Company and the transfer of £12,362,153 to a separate capital reserve.

AND NOTICE IS FURTHER GIVEN that the said Petition is directed to be heard before Mr Registrar Buckley at the Royal Courts of Justice, The Strand, London WC2A 2LL on Wednesday the 13th of October 1993.

Any Creditor or Shareholder of the said Company desiring to oppose the making of an Order for the said reduction of capital should appear at the time of the hearing in person or by Counsel for that purpose.

A copy of the said Petition will be furnished to any person requiring the same by the under-mentioned solicitors upon payment of the regulated charge for the same.

DATED the 13th September 1993

Messrs Lawrence Graham
190 Strand
London WC2R 1JN

Our Ref: HS/T2308-6-AD

Solicitors for the above-named Company

Insolvency Rules 1986
Notice of Administration Order
COSSLETT (CONTRACTORS) LIMITED
Registered number: 716109
Nature of business: General construction and Demolition. Trade classification: 23. Administration Order made 8 September 1993. L Clark, Administrator.
Office Holder Number 0.001723/01
Clark & Co. P.O. Box 30,
8 Hall Road, Wilmslow, Cheshire, SK9 5BU.

NOTICE OF APPOINTMENT
Company Names and Numbers: CST EMERGING ASIA TRUST PLC. Nature of business: Investment Company. Type of liquidation: Members' Voluntary. Address of registered office: Knightsbridge House, 197 Knightsbridge, London SW7 1RB. Liquidators' names and address: David John Pallen & Margaret Elizabeth Mills, Becket House, 1 Lambeth Palace Road, London SE1. Office holder number(s): 5317 & 5318. Date of appointment: 27 August 1993. By whom appointed: Members.
NOTICE TO CREDITORS
NOTICE IS HEREBY GIVEN that the creditors of the above named company are required on or before 20 October 1993 to send their names, addresses and particulars of their claims, and the names and addresses of their solicitors (if any) to us and if so required by notice in writing from us, and personally or by their solicitors to come in and prove their debts or claims at such time and place as shall be specified in such notice or in default thereof they will be excluded from the benefit of any distribution made before such debts are proved.
M E Mills, Joint Liquidator
September 13, 1993
NOTE: This notice is purely formal. All known creditors have been or will be, paid in full.

No. 006329 of 1993
IN THE HIGH COURT OF JUSTICE
CHANCERY DIVISION
MR. JUSTICE CHADWICK
IN THE MATTER OF THE INDEPENDENT INVESTMENT COMPANY PLC
- and -
IN THE MATTER OF THE COMPANIES ACT 1985
NOTICE is hereby given that an Order of the High Court of Justice Chancery Division relating to the above Company dated 15th September 1993 sanctioning a Scheme of Arrangement and confirming a Reduction of Capital from £27,158,122 to £3,909,688.75 (which capital was subsequently re-increased to £27,158,122) and the Minute approved by the Court showing with respect to the Share Capital of the Company as altered, the several particulars required by the above Act was registered by the Registrar of Companies on 17th September 1993.
DATED 22nd September 1993
Slaughter and May, (RLD)
35, Basinghall Street,
London, EC2V 5DB
Solicitors for the Company

COMMERCIAL PROPERTY also appears today on page 15

Boardroom changes at IBM and Eastman Kodak, two of the US's largest companies, have underscored the growing muscle of both non-executive directors and activist shareholders in US corporate life.

IBM, under its chairman, Lou Gerstner, has become the first large US company to set up a sub-committee of the board devoted to matters of "corporate governance" – that is to say, the framework within which the business makes decisions and the role of shareholders in influencing policy.

At Kodak, non-executive directors last month ousted Kay Whitmore, the chairman and chief executive, for not moving with sufficient aggression to improve the company's lacklustre performance.

The directors' coup at Kodak was the latest in a series which has toppled chief executives at an extraordinary number of poorly performing blue chip US companies, including IBM, General Motors, American Express and Westinghouse Electric.

The non-executives at these companies were responding, at least in part, to growing pressure from institutional shareholders to produce a sharply improved financial performance. In the past, the outside directors at many US companies tended to be fairly passive followers of the lead set by management.

Now, however, big investors are insisting directors fulfil the function they were elected to carry out: acting as fiduciaries on behalf of shareholders, making sure management runs the company efficiently and on their behalf.

The leaders of this "corporate governance movement" want boards to give more power to non-executives. For example, a common demand is that new directors are nominated by a committee composed of outsiders. And the institutions are insisting that their views on both governance issues and strategy are given more weight, particularly at companies producing poor financial results.

The IBM initiative represents a novel way of tackling this challenge, and seems to be Gerstner's response to strong shareholder criticism of the board's passivity under John Akers, who was forced to resign as chairman last spring because of the group's poor performance.

Gerstner, keen to improve relations with investors, encouraged the board to create a new "directors and corporate governance committee" composed of non-executive directors. It will be presided over by James Burke, former chairman of Johnson & Johnson and the man who led the search for a new chief executive when Akers was ousted.

The committee will review the size, composition and functions of the board and board committees, as well as retirement policies towards non-executive directors and their pay.

Now just a minute! But it is too late for IBM's Akers (left) and Kodak's Whitmore, who were ousted by non-executive directors

Big Blue soothes its big investors

IBM's board of directors has established a corporate governance sub-committee, writes Martin Dickson

It will also review and respond to significant proposals from shareholders and oversee the company's position on issues of public responsibility, such as equal employment opportunities and protection of the environment.

Finally, it will nominate new board directors, and as part of the process will evaluate any recommendations from shareholders.

Cari Christian, executive director of the United Shareholders Association, an activist umbrella organisation, said: "We are very supportive of what they [IBM] are doing. The company needed to be more aware of shareholders and communicate with them . . . I think you're going to see more and more companies moving in this direction."

There is a danger that corporate governance committees could be used by strong managements as a public relations exercise, to suggest a willingness to involve shareholders where none really exists.

James Heard, president of Washington-based Institutional Shareholder Services (ISS), which advises large investors on corporate governance issues, says: "I could see such a committee as little more than window dressing, or as quite formidable if it were the point of contact with shareholders pressing for change."

But while governance committees could reduce shareholders' dealings with executive directors, this does not seem to worry the activists.

DeWitt Bowman, chief investment officer at the California Public Employees Retirement System, the largest public pension fund in the US, says: "We feel the principal contact should be between shareholders and directors. Directors represent shareholder interests . . . Where we have achieved most success in dealing with a company has been through working through directors."

However, shareholder groups seem unlikely to issue blanket demands that other companies follow the IBM model. Bowman notes that most situations are company-specific.

Heard says the fact that a company recognises the need for better relations with shareholders, and is doing something about this, is more important than the specific structure it adopts. He points to Kodak as an example of a company taking a somewhat different approach to IBM.

Kodak's non-executive directors were so concerned with the company's performance and mounting investor ire that they formed a special board committee at the start of this year to take a more active role in group strategy or, as they called it, "corporate directions".

Last month, frustrated by Whitmore's slow pace in restructuring the business and giving it a clear sense of direction, they told him he had to go.

The coup differed from those at other blue chip companies in one interesting respect. In their public statements, the directors made no secret of the fact that Whitmore had been forced out and the reasons for this. They also let it be known that he had been under pressure from the board to perform better for the past two years.

This may not have left Whitmore with a great deal of dignity, but it sent a significant message from directors to shareholders: we acknowledge your concern and we want to communicate more openly.

CHRISTOPHER LORENZ

The Design Council on a crash diet

TOTEMS have a nasty habit of being toppled. Three months ago, in the latest chapter of extensive deliberations in Washington on how the Clinton Administration can help improve the quality of design in US industry, Britain's 49-year-old Design Council was held up as a possible model. Along with his counterparts from much more richly-funded Taiwan and Japan, the Council's director-general was one of the main foreign speakers at a three-day talk-in of adminstration officials and other interested parties.

But yesterday, the British government served notice on large parts of the Council's activities, on the grounds that some no longer fit the public sector, and that others should be integrated into its own multi-purpose network of "Business Link" advice centres around the UK.

In particular, the Council's direct delivery of various consultancy services to industry will be transferred or sold off during the course of the next year or so. Instead, the Council's work will be refocused on the provision of high-quality analysis and advice on every aspect of design: to all arms of government, to industry, to intermediate bodies, to education, and to the design community. The industry minister expects it to be "the nation's design conscience".

The exact size, shape and role of the Council's activities will be determined over the next few months by a review team under John Sorrell, the chairman-designate, himself a designer and successful businessman. But it is clear that the new Council will be ultra-slimline, shrunk to a fraction of its current staff of 220 to somewhere between 20 and 50. Government funding will also be much lower than the current annual £7.5m, possibly £2m-£3m.

In the cold light of dawn, how should the decision be interpreted? Should Britain's design community and the Council's 22 members – myself among them – feel betrayed or relieved?

Far more important, what impact will the move have on the readiness and ability of British industry to make better use of design, which is an increasingly important competitive weapon, now that technology, quality, service and other "non-price factors" are becoming little more than tickets for entering the international marketplace, rather than weapons for winning in it?

As Ford has found with its Taurus car in America, Rover with its latest model range, and Apple with its PowerBook laptop computer, the character and "feel" of a product or service, as well as its performance – what Japanese academics call its "integrity" and "ability to delight" – can make all the difference.

There will be two types of reaction to what pessimists will dub the "dismemberment" of the Council, and the optimists its "refocusing". The first group will

The industry minister says he expects the Council to be 'the nation's design conscience'

cry "disaster", and point to the hundreds of millions of dollars which the governments of Taiwan, Korea, Japan and a few other countries are pouring into design. In spite of yesterday's strong official protestations to the contrary, they will fear that the Council will ultimately disappear.

The second group, in which I include myself, will argue that a body like the Council must be just as ready to undergo radical change as the constituencies which it serves. Countless private- and public-sector organisations in Britain are being torn up by the roots and their justification for existence examined.

There is every reason to think that a slim, high-powered research, evangelising and lobbying organisation can win friends and influence decision-makers in business, government, management education and elsewhere. On a smallish scale, just such a role has been played in the US to great effect for several years by the Boston-based Design Management Institute, a private-sector body. The research, publications, conferences and exhibitions organised by its entrepreneurial, close-knit team, on a budget of less than $1m a year, have given it – and its message – a high profile across corporate America, and in Washington. With more federal funds, which may soon be provided, it would perform better still.

In retrospect, the Design Council might have been treated more kindly by Whitehall if it had managed to restore the high-profile campaigning image for which it was noted in the 1970s, and which the government now wants revived and redirected at the business world. Those of us who, behind its closed doors, expressed discomfort at its drift away from its roots in industrial design towards an excessive concern with engineering, should have been much noisier.

On the other hand, there was little wrong with the Council's regionalisation of most of its industrial services, in order to reach the grass roots, nor with its materials for schoolchildren – which win high praise from teachers and students alike. But it paid too little attention to the parallel need to convince opinion-formers that design is an exciting, glamorous activity which can transform corporate fortunes.

What matters now are five things: that the review team completes its task rapidly; that the government then funds the slimline Council adequately; that Whitehall ensures that activities transferred from the Council do not sink without trace in their new homes – quite a problem, since the first Business Links are only just being piloted; that good staff move with their jobs; and that the government makes it clear that it is prepared to strengthen the design component of its various support schemes for innovation.

Such steps are needed, along with a much greater design effort on the part of industry itself, if – like Rover – British business is to be able to compete with its increasingly design-intensive competitors from Europe, North America and East Asia.

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PEOPLE

Arriving before the milk float

Dairy Crest, the food-processing arm of the Milk Marketing Board, has appointed a new finance director to steer the company through its flotation next February and its new role in a free milk market. David Harding joins the company's board on October 11 from his current position as deputy finance director of the TI engineering group.

A former civil servant at the Treasury, the 46-year-old Harding has worked for TI Group for the past 13 years; he has held a number of positions including head of corporate development and managing director of the company's smaller business division.

He joins the cut-throat dairy industry at a time of rapid change which has seen the abolition of the government's compulsory purchasing scheme for milk and the introduction of a free market next April – in which Dairy Crest will have to compete for milk supplies. It is implementing widespread changes in corporate culture before flotation.

The company's careful selection of Harding reflects the fact that he has experienced a similar change in corporate culture at TI – the group has undergone a huge re-organisation in the past 10 years. Indeed, Harding wrote an analysis of the process of corporate change which has since become a discussion paper at Harvard Business School in the US.

Harding is an economics graduate and also worked for IMI before joining TI in 1980. He replaces David Lewis at Dairy Crest who will retire in a few months.

Alan Cleary (above) and Jim Magee are to join the board of Miller Knight, the chartered loss adjusters, following the shake-up of the Merrett Group in the past few weeks.

Cleary becomes executive chairman and Magee chief executive with effect from October 11. Barry Whyte continues as managing director.

The appointments come after pressure for changes within the group of insurance companies headed by Stephen Merrett, who recently resigned as deputy chairman of Lloyd's, the insurance market. Merrett agreed to a number of changes over the summer including appointing new directors and resigning as chairman of Merrett Underwriting Agency Management, another part of Merrett Holdings.

Miller Knight has been involved in part of the restructuring, which has included the introduction of computer systems and improving the overall management of the company.

Both Cleary and Magee were group managing directors of Thomas Howell, where Cleary was deputy chairman. When they left the company two years ago they signed an agreement to remain out of the industry. That agreement has now expired.

Cleary is a past president of the Chartered Insurance Institute and of the Chartered Institute of Loss Adjusters.

■ Graham Blewett, formerly national sales director of Frizzell Life & Financial Planning, has been appointed md of MINET Consultancy Services. John Telford also moves from Frizzell to become a divisional director; and Mike O'Sullivan moves from Halifax Independent Financial Advisers to become a divisional director. David Edwards is appointed national development director; he moves from Godwins in Sevenoaks.

■ David Mills (above), who has spent his career with MIDLAND BANK, and in March this year was appointed general manager, business development division, has now been appointed md of MPFS, Midland's Personal Financial Services. He is succeeded by Geoff Ellerton, formerly Midland's planning director.

■ John Wright, director and chief executive of the Oman International Bank, has been appointed chief executive designate of NORTHERN BANK, the Belfast-based subsidiary of National Australia Bank; he succeeds Sam Torrens who retires at the end of November.

■ After being without a chairman for nine months, Britain's DESIGN COUNCIL will have a new one in January: John Sorrell, a 48-year-old designer and businessman who, with his wife Frances Newell, runs Newell and Sorrell, a successful 45-person corporate identity consultancy best known for British Rail's InterCity identity and the Royal Mail's Parcel-Force.

His first task, as deputy chairman for the rest of this year, will be the painful one of planning the orderly transfer of most of the Council's activities to other arms of government. But he was brimming with enthusiasm yesterday at that challenge, and the more positive prospect of creating the high-powered research and campaigning body which the rump of the Council will become.

"I want to contribute because I care enormously about the way design can help the performance of UK plc – especially manufacturing industry, but also education and society as a whole," he says.

Davies to chair Health Commission

Frank Davies who, as president of the Glass Manufacturers' Federation, doubled the amount of glass to be re-cycled in four years, has been appointed the new chairman of the Health and Safety Commission, one of the few remaining tripartite bodies involving the government, unions and employers.

He succeeds Sir John Cullen, who retires next week after 10 years in the post.

According to Michael Forsyth, minister for employment, who made the appointment, "Frank Davies has a distinguished record of achievement in industry and a long standing interest in health and safety matters."

Davies has been chief executive of the Rockware group since 1983. After the sale of the company to BTR Nylex, he also became chairman of BTR Nylex's European division and a member of the board of British Nylex Australia. He was founder chairman of the Nuffield Orthopaedic Trust, president of St John Ambulance Oxfordshire North for 20 years and was a member of the Oxfordshire district health authority from 1981 to 1990.

The Health and Safety Executive, which advises the commission, yesterday said that it had re-appointed John Rimington as its director-general.

Rimington has been director general of the executive since January 1984. He is on loan to the HSE from the civil service where he holds the personal rank of second permanent secretary in the department of employment.

TECHNOLOGY

Fighting those phobias

"TECHNO-PHOBIA," says Dan Gookin, "is a sign of our times." Anyone who has fumbled with the controls on a video recorder, become confused by the digital display on a camera, or cursed at a computer will know what he means.

Encouragingly for a country still struggling out of a harsh recession, people in Britain are somewhat more comfortable with today's technology than those in France, Germany or the US. While 55 per cent of French, 50 per cent of German, and 55 per cent of US adults and teenagers are techno-phobic, the figure for Britain is 46 per cent.

The findings come from research by Dell Computer of the US. Gookin, a US author who has written books such as *PCs for Dummies* for those who shy away from anything mechanical or electronic, reckons technology has passed many people by.

Commenting on the research, he says: "One of the main reasons many people are paranoid about technology is that no one in the industry has bothered to help them understand how simple it is to use and what it specifically can do for them. Most manuals are as difficult to understand as a graduate-level course in quantum physics."

Not surprisingly, Dell's research shows younger people are less afraid of technology than their elders. The fact that it carried out the research at all is a sign that computer companies are increasingly nervous that business and individual users may be left behind by the bewildering pace of development in the jargon-ridden world of information technology.

Increasingly, therefore, computer and software companies try to highlight the benefits and applications of their products rather than the technological content. But managers steeped in the fast-evolving world of electronics often find it hard to keep their message clear.

Andrew Fisher

NCR's automated teller division led the competition of today, but feared for the future, writes **James Buxton**

A quicker pace

Jonathan Littlejohn

Jim Adamson: 'What would happen if Japanese car makers moved into our industry?'

Jim Adamson, who runs the worldwide automated teller machine business of US multinational NCR, now part of AT&T, says that when in 1990 it compared its performance with that of rival ATM manufacturers, he found the conclusions frightening. "Our bench-marking showed that by most yardsticks we were far ahead of our competitors. And I didn't like it."

What frightened him, he says, was the knowledge that despite success, the operation which he runs from NCR's plant in Dundee was still taking as much as five years to bring products from conception to the market.

Although that was sufficient to beat its current competitors, "there is a danger in business that you only look at your present competitors," Adamson says. "What would happen if companies from other industries with better product innovation – such as Japanese car makers – moved into our industry?"

Adamson's concern led NCR in 1991 to hire the consultants Pittiglio Rabin Todd & McGrath (PRTM), who advise on operations management in both the US and Europe, to help speed up its product innovation. NCR now claims that after a painful culture change, its innovation lead times have been shortened by up to 40 per cent.

NCR's ATMs were already beginning to achieve dominant market positions and by the end of 1992 some 65 per cent of the ATMs installed in Europe and 39 per cent worldwide had been made in Dundee. Last year, the plant shipped 53 per cent of all ATMs sold worldwide. This year, NCR's ATM business, worth about $1.29bn (£830m), is growing by 20 to 25 per cent, as it outpaces its biggest competitor, InterBold of the US. It has increased its Dundee workforce by 300 to 1,600.

Yet the third and fourth generation NCR ATMs on which this performance is based took several years to reach the market, after a process which Adamson says was inefficient and long-winded. Product ideas originated with the marketing department, went to engineering to be designed, then on to manufacturing to be produced, before coming back to marketing.

It was when the first models had been built that the customers' verdict was sought. This led to design changes which had to go through the manufacturing process. "We didn't feel we had to get it right first time," says Adamson.

Whereas the old system proceeded serially, "with lots of dotting back and forth between the stages," Adamson says, under the new system, which the consultants call Pace (product and cycle-time excellence), the processes run in parallel.

A core team of six or seven people is set up to handle the development of a new product, the idea for which may come from marketing, engineering, other departments or from the customer. The team includes representatives not just of engineering but of manufacturing, quality control, servicing and marketing.

"The involvement of all these disciplines means that you get individual engineers thinking through the business case from a customer's point of view," says Adamson. "That view comes via the marketing representative, based on regular contact with customers.

"Pace means that ideas that may seem good to engineers but don't appeal to customers are weeded out at an early stage. The involvement of the manufacturing department could mean that a feature that may be difficult to build or make the product awkward to ship emerges at an early stage," Adamson says.

The core team is monitored by the product approval committee, a permanent body which includes senior executives such as the directors of engineering, finance, quality, human resources, marketing and technology. It has to authorise funding for each phase, from the initial evaluation of the concept by the core team, through the hammering out of a design requirement, to the development phase.

Adamson says that under Pace most of the hard work put into the development process by senior executives comes in the early stages. "There's an awful lot of arguing to get through but all the different stages that used to take place along the way are compressed into a short time. That means that much less senior executive time is needed as the product comes closer to reaching the market."

Pace can mean that projects get killed at an earlier stage. Of the two pilot projects to which NCR applied Pace, one was Adamson's pet scheme for a low-cost cash dispenser. The core team evaluating it judged it not to meet customer requirements and recommended not going ahead in its original form. The decision saved $5m of development funding.

"That would never have happened in the past," says Alison Armstrong, vice-president for self-service software systems. "It would have been seen as cancelling a project. Now it's seen as applying R&D effectively."

Adamson says: "Pace means more freedom of speech and more freedom of action. Under the old system it was very difficult to cancel projects because we would already have spent a lot of money on them and the people involved fought for them because they were afraid they would lose their jobs. Now the core team feels that if a project is cancelled it can get on with something more worthwhile."

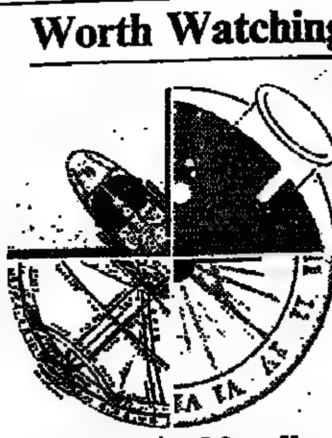
The other pilot project was a software package for monitoring and controlling a network of ATMs, which was reckoned to be three times as complex as the previous one from which it was derived. But whereas the earlier version took 108 weeks to bring from concept to market, the new package was developed in 65 weeks, a 40 per cent saving.

However, the introduction of Pace, in which PRTM staff acted as facilitators, was traumatic, Adamson admits. "It was a cultural change," he says. "We had to break down barriers between different disciplines. You had engineers saying: how we do our job is nothing to do with quality control or with production engineers."

Armstrong says that some of the most painful changes affected Adamson himself, who is quick-thinking, decisive and charismatic. "Jim had to stop himself from taking too many decisions and leave them to the core teams." Now Adamson only gets involved in critical business decisions, as a member of the product approval committee, rather than matters of product detail.

Adamson says: "When we were a smaller organisation, I was making all the decisions. Now I am coach and counsellor to aid decision-making." The Pace process of product development, which PRTM had introduced to offshoots of other US multinationals before it came to NCR's self-service division at Dundee, is now being adopted by five other divisions of NCR, and in two divisions of NCR's parent AT&T.

Worth Watching · Andrew Fisher



Insuring for Lloyd's future

In a move which should bring a sigh of relief to hard-pressed Lloyd's names, a specialist software house has launched a package to indicate the future performance of individual insurance syndicates.

Whitespace Software, which supplies some 40 per cent of Lloyd's members agents with software products, developed its Exegesis package in accord with the market's new emphasis on professionalism and information transparency.

The software modelling package, using ObjectIQ, the programming tool from Hitachi of Japan, will enable agents to make probability assessments for each of the 228 syndicates. Publicly available information will be combined with agents' own knowledge and experience. Whitespace Software: UK, 071 287 2860.

Escaping into 3-D

Screen addicts can step into the third dimension with the aid of what Logitech of Switzerland calls the world's first interactive three-dimensional controller for computer games.

Cyberman has been developed for the latest generation of PC-based games. It provides single-handed control of movements in all axes without the need to use the keyboard and has a tactile response mechanism so users can feel what is happening in the game. Logi (UK): UK, 0344 891313.

Braking the thieves

Vehicle theft is a growth industry. But while most people's attention is focused on car security, truck and trailer users are increasingly concerned about protecting heavier vehicles.

To combat theft of truck loads, trucks and trailers, David Bramley Engineering has developed a range of precision products which fit on to the vehicle. Among them is the Bramley Trucklock, which fits into the parking brake circuit and locks the braking system with a 10-pin high-security lock offering 1m different key cuts.

Other products protect the trailer's king-pin and brake line coupling to prevent thieves towing the unit away. David Bramley Engineering: UK, 0602 623499.

Time to get back in the shade

The dangers of the sun have been well chronicled in this health-conscious age. But how do you know when harmful rays can bring on the burn?

NTT America, part of Japan's Nippon Telegraph and Telephone, has brought out what it calls "an early warning system for your skin and eyes". This is claimed to be the first re-usable ultra-violet sensing self-adhesive patch that screens harmful UV-B and UV-A rays and gives immediate information on the protection needed.

The patch can be re-used more than 1,000 times. "It alerts the user to the risk of over exposure and painful sunburn before the damage is done," says Hideo Yamamoto, vice president of technology transfer. NTT America: US, 212 808 2351.

Fitting the office into a briefcase

Most people are happy to forget their offices when they go home, but UK-based Vocom has a solution for those who cannot bear to leave their work behind.

Vocom says its Micro-office is the first office-in-a-briefcase with a single power supply for all its computer and communications equipment. This cuts weight and allows more equipment to be included. The product includes a letter-quality printer, data and fax modem, removable mobile telephone and optional notebook computer. It accepts most common types of notebook computer.

Micro-office weighs 17 lbs without the computer and costs £2,995 excluding value-added tax. Vocom: UK, 0793 784478.

Concert

Leipzig cramps the Nash

Visibly, the Nash Ensemble's loyal audience grows ever more ancient; and in the first concert of their Wigmore Hall season on Wednesday, the Ensemble sounded fairly crumbly too. Perhaps they were disheartened by the prospect before them. Until January, they are committed to a "Leipzig Gewandhaus 250th Anniversary Series" – and it is a nonsense.

The introductory programme note promised re-creations of chamber music-making in the Gewandhaus hall, from Mendelssohn's time as conductor of its great orchestra to the late 19th century. In fact the next three concerts will consist exclusively of hyper-familiar standards by Mozart, Brahms, and Mendelssohn, with a trio by the latter's colleague Niels Gade (1817-90) as prelude to the Mozart clarinet quintet on a January morning. Far from extending the Nash's range (or ours), this series cramps it cruelly: no room for any new works, nor the serious rediscoveries – usually French – for which we love them.

This first concert was slightly more adventurous, but to no great purpose. To hear a piano sextet by the Englishman William Sterndale Bennett (1816-75), a protégé of the leading German composers of his day, we had to arrive by 6. The main concert at 7.30, in which Mozart and Mendelssohn evergreens were cushioned by a Spohr romance, a Weber song, and seven soprano solos and duets by Rossini (no doubt Rossini *was* heard in Leipzig: but *so what*?), ran on long past 10 o'clock. By then a sizeable fraction of the audience had gone.

The Sterndale Bennett sextet, with a graceful introduction from his great-great-grandson Barry, seemed a well-schooled piece of real talent. How *much* talent was hard to judge – for it is almost a mini-piano-concerto, and Ian Brown sounded imperfectly familiar with the piano part (most uncharacteristic of him, but all too plain). One could only guess at what a more assured performance might find in the music. In Mendelssohn's second book of *Songs without Words* later, Brown proved beyond doubt that their essential vein of dewily lyrical, knowing innocence is not *his* vein.

Not with his plonking touch! – and certainly not on the Wigmore's big, booming Bosendorfer, the like of which was never heard until long after Mendelssohn died. Transcriptions of the "Songs" for the Albert Hall organ would have been no more implausible. Brown is happier with notes that come thicker and faster; he was far more at home with his dashing role in the D minor Trio, but for the mild violin and cello his Bosendorfer loomed like a hungry whale over minnows. Earlier, Mozart's great G minor string quintet got a decently musical performance, though the long accompanying passages for strings throbbing in unison were chronically muddy.

The songs were all right. If Lillian Watson's coloratura is more casual about pitch than it used to be, and the new-found depth of Lynn Dawson's soprano was unsuited to her airy Spohr, they still collaborated fetchingly in Rossini. Nevertheless, the whole protracted farrago lacked any point: it was a re-creation of nothing, it shed no new light on anything, and by the honourable Nash standards it was not distinguished playing. Hand on heart, I should say that only the cellist Christopher van Kampen's bass line gave me consistent musical pleasure.

David Murray

Two Chinese artists working in the figurative tradition: 'Dad with Mum', 1991, by Liu Wei; and 'Group Two No 2', 1992, by Fang Lijun

Back to Beijing for bohemian principles

Lynn MacRitchie admires Chinese avant-garde art, finding it full of contradictions put to artistic use

Visiting young artists in China sometimes seems like going back in time, to Paris in the early years of this century, perhaps, when the creators of what was to become modern art were starving in hovels as they made their history changing experiments.

In Beijing today there is an "Artists Village" on the very western edge of the city, where a large group of painters, sculptors, writers and poets live the sort of bohemian life no longer much practised in the survival conscious west, where economic strategies are as much a part of artists' conversation as developments in their work.

In 1993, however, even in China, such a community could not remain unknown for long. Some of the residents, although unrecognised by the artistic authorities who do not allow their work to be exhibited in the city, are already regular exhibitors in the west, the US and Australia, their untaxable income – since the authorities do not recognise them, neither can they profit from them – from sales at western prices making them part of Beijing's new rich.

"China Avant-Garde", the second part of the exhibition of Chinese contemporary art at the Museum of Modern Art, Oxford, gives an opportunity to see the work of artists who for the most part are still living in their homeland. Some are employed as art teachers or designers, some are proud to be "living as independent artists." This position, like so many in the rapidly changing China of today is one filled with contradictions, something the artists themselves are well aware of and which in some cases provides a powerful theme in their work.

All kinds of art work are practised and represented in the show. A form of realistic painting holds an important place, however. Fang Lijun and Liu Wei, both painters and two of the participants from China in the Venice Biennale this year, told me they had been disappointed by some of the work they saw there, complaining that it was too difficult to understand and seemed too far removed from everyday life.

Both Fang Lijun and Liu Wei work from life, as captured in informal photographs of family and friends. Fang Lijun uses his own image worked large and repeated to create a world of anonymous figures against neutral backgrounds such as the sky, water or the sea, elements which he describes as being both very familiar and completely unknowable. The compositions suggest oppression and dread, the smiling figures both appealing and threatening, a potential brutality lurking beneath the placid and beautifully drawn surface.

Liu Wei uses his immediate family as his subjects. By depicting them with brutal clarity in compositions which include the bits and pieces of everyday life – dad in his army uniform in front of a TV set showing Beijing opera, for example, or the elder brother grinning as he shows off his baby next to a grotesque toy deer, Liu Wei captures the absurdities of life in a society which has destroyed the meaning of the achievements of the past but faces the future with confusion: if you want to know what life in Beijing really *feels* like, look at these pictures.

Another important school of painting is political pop, whose most famous representative is Wang Guangyi. He too is influenced by what he sees in the streets. We are used to our streets being full of images, he told me, but the billboards once painted with political slogans and exhortations are now covered with the famous names he uses in his pictures, combining the heroic workers, peasants and soldiers of "Maoist realism" with Benetton, Kodak, Coca Cola and Marlboro. He points out that he does not celebrate the consumer objects as the American pop artists did, but wishes to make his audience think about the culture clash which has thrown his world into turmoil, producing a strain of nostalgic idealism which has made Chairman Mao into a genuine people's hero *for the first time*, patron saint of the hustling taxi drivers who clog the capital's streets.

Other artists, such as Ni Haifeng, who lives on an island 12 hours sailing time from Shanghai covering rocks and stones in the landscape with writing and numbers, combine their knowledge of Western conceptual or performance work with study of ancient Chinese traditions. At a time when all is flux, the need to grasp on to something which retains integrity is strong.

It is sobering to reflect that the get rich quick jungle which is China today emerged directly from the devastation of the Cultural Revolution, economic liberalisation the party's next tactic to retain power at any price.

While most of China's citizens, with survival their uppermost concern, obey the new commands just as they obeyed the old, some of her artists are exploring what it really feels like to be Chinese today, telling the truth about their experience in a way that has simply never happened before.

Throughout the history of Chinese culture, the individual has had little significance and less power. As China faces the future, this will have to change. Her avant-garde artists, wary, cynical, talented and tough, are at the forefront of this transition.

New Art from China Part II: China Avant-Garde. Museum of Modern Art, Oxford, September 5 - October 24. 30 Pembroke Street, Oxford, OX1 1BP. Tel 0865 722733

The Italian clothes manufacturer and retailer Benetton is to take its non-product advertising into Aids awareness. Three new images, a male buttock, a female torso and an upper arm are tattooed "HIV POSITIVE". Prevention like this works, but the problem for those now dying of Aids is the slowness of the cure. Larry Kramer's play *The Destiny of Me* at the Leicester Haymarket Theatre presents a man with Aids who asks "What do you do when you are dying of a disease you need not be dying from?" Kramer has based the action on his remarkable life.

Theatre/**Andrew St George**

The Destiny of Me

At over 3½ hours, *The Destiny of Me* makes a boring, frustrating play, albeit on two compelling subjects: Aids and Kramer's homosexuality. This is so nearly fine drama, but the issues need to be focussed; they are too important to speak for themselves. At present the play is a combination of Neil Simon's Jewish lore (*Brighton Beach Memoirs*), James Purdy's angry 1960s gay novels and *Marvin's Room* (now at the Comedy Theatre, Panton St), a play about leukemia by Scott McPherson (who died of Aids at 33 last year).

In 1981 Kramer founded Gay Men's Health Crisis, and in 1987 the Aids Coalition To Unleash Power. His writing, especially *Faggots*, a novel about New York gay life and *The Normal Heart*, his 1986 Aids play (Public Theatre and The Royal Court), has brought gay health issues into the public domain.

Robert Workman

Simon Callow (who also directed) as Ned

Here, Kramer's autobiographical action centres on Ned, an Aids activist now ill in a New York hospital. Outside, demonstrators rail against inadequate government research provision, while inside, Dr Della Vida (nice pun) tries the latest blood transfusions. Ned travels back in time. His family past appears in the clinic, and we see scenes from Ned's childhood. Here are the roots of Ned's homosexuality. His disappointed father, his indulgent mother, his vigorously heterosexual brother make up a dysfunctional family which bore the added burden of anti-semitism in the 1950s. Past and present are intercut. Ned has blood transfusions while his past self picnics with the family; his mother recounts a miscarriage and his father rants "You were a mistake, I didn't want you, I never wanted you."

Gradually the play takes shape, making more sense of the repetitive familial anguish and disclosure. But Kramer then tries to link complacency in Washington with the advance of a virus in the bloodstream. Dr Della Vida says: "The President cares. He has a heart. He really wants this disease to go away." There was laughter in the theatre. Kramer presents gay men like Ned as politically empowered but pathologically passive.

Simon Callow (who also directs) finds range and passion in the lead role. James Kennedy as his younger self and Jason Durr as his brother carry off the play's best scene, where Ned "comes out", and Ned's mother (Ann Mitchell) asks the best question of the evening: "Is sex what controls your life?" In hospital, Patti Boulaye is underemployed as a nurse, all Upper East side chic and Lower East side mouth; her husband the Doctor (Peter Woodward) personifies the embattled health services.

Aids has taxed belief in progress and rationality. Kramer conveys the madness of the alternatives: "Why do I never stop believing a cure will be found for this plague?" Larry Kramer is HIV positive.

In repertory (0533 539797) until 9 October

Jazz/**Garry Booth**

Blood and thunder electrify Docklands

There must be better places than Dockland's Cabot Hall to hold a jazz music festival. Sarajevo is probably more accessible. Heathrow's Eurolounge possesses a more convivial ambience. Even the political atmosphere is repellent to jazz, the far right having recently taken the local authority seat. Those of us who did make it to the mausoleum were rewarded, however, by the sight and sound of decadent music at its electrifying best.

The last time I saw guitarist James Blood Ulmer it was against a background of rolling thunder and rain like stair rods in the dark, outdoors at Brecon. It is possible that he carries this sort of weather with him because so it was again on the Isle of Dogs, where his stage backdrop was a neon and rain soaked cityscape overlit with sheet lightning.

This time the one man electrical storm had brought fellow harmolodocian and reedsman Sam Rivers with him and a rhythm section of drums (Doug Hammond) and plucked cello (Mooni Abdul Farah). The sound sculptures created by the quartet are not immediately gratifying: Ulmer, working a semi-acoustic sends shards of notes flying from the thumb, constricted chords creating a tension relieved by River's more open, but still abstract blowing. Hammon's drums and Frah's cello (improbably mounted on a three foot spike to allow him to stand) churn menacingly behind.

But surrender yourself to the leader's dissonance and strangulated pitch, and the funk and raw blues emotion is hypnotic. Like his mentor, altoist Ornette Coleman, the guitarist suspends his claustrophobic sound from an innate sense of time. Rivers, looking like a leather-clad pipe cleaner man, cut through the fog with plaintive soprano scribbling and shrill flight with the flute. The use of bowed and plucked cello in place of bass adds to the tragic majesty of the work. Hendrix would have loved it.

Sponsor: Texaco. Docklands Jazz Festival continues with Jools Holland Big Band (Fri); Bill Bruford's Earthworks and Julian Joseph Qt (Sat): Jazz Warriors and Jazz Jamaica (Sun 3pm, free)

INTERNATIONAL ARTS GUIDE

■ PARIS

The Paris dance season opens next Wednesday at the Palais Garnier with the first of nine performances by the Opéra Ballet of a Soirée d'Ouverture, featuring a grand procession of dancers followed by performances of Claude Bessy's Concerto (1977), Harald Lander's Etudes (1952) and William Forsythe's In the middle somewhat elevated (1987). The Opéra Ballet's repertoire in the opening part of the season includes a Jerome Robbins evening (Oct 23-Nov 3) and a revival of Picasso et la Danse, featuring classic 20th century choreographies by Nijinska, Petit and Massine (Nov 26-Dec 8). This year's Christmas show is the Neumeier production of Nutcracker (Dec 17-Jan 28). There will also be three visiting companies. Twyla Tharp and Dancers present two Tharp programmes, including As Time Goes By (1973), Baker's Dozen (1979) and a new untitled ballet (Oct 12-16). The Tokyo Ballet will premiere a new work by Maurice Béjart (Nov 6-10), and experimental Belgian choreographer Anne Teresa de Keersmaeker brings her much-travelled Rosas (Nov 17-20). Later in the season there will be visits from Alwin Nikolais and the San Francisco Ballet, plus new ballets by Angelin Preljocaj and Roland Petit, a revival of the Nureyev production of La Bayadère and two Opéra Ballet mixed bills (for tickets 4742 5371 for information 4017 3535)

■ EXHIBITIONS GUIDE

BERLIN
Martin-Gropius-Bau Japan and Europe 1543-1929. Ends Dec 12. Closed Mon
Brücke Museum Ernst Ludwig Kirchner: drawings and watercolours from the museum's own collection, covering all stages in the career of the German expressionist painter. Ends Jan 9. Closed Tues
DORTMUND
Museum für Kunst China's Golden Age: 120 art objects from the Tang Dynasty (618-907 AD), including richly-ornamented golden vessels, porcelain, silks, brocade and figurines. Ends Nov 21. Daily
ESSEN
Folkwang-Museum Morosov and Shchukin: 120 works from the St Petersburg Hermitage and Moscow Pushkin Museums, representing the remarkable collection of French impressionists and early moderns built up by two Russian entrepreneurs in the early years of this century. Ends Oct 31. Closed Mon
FLORENCE
Casa Buonarroti Michelangelo – 18 masterpieces: these are the top drawings out of the 200-strong collection owned by the Buonarroti Foundation. All are of the highest quality, and all are signed by the artist. Ends Oct 30
Galleria del Costume di Palazzo Pitti Fashion at the Court of the Medicis. Ends Dec 31
GENEVA
Musée d'art et d'histoire Egyptian Fabrics: a large private collection illustrating the techniques and richly-decorated styles which developed in the transition from the Coptic to the Islamic eras in Egypt. Ends May 1. Egyptian Blue: glazed earthenware from ancient Egypt. Ends Oct 3. Closed Mon
HILDESHEIM
Roemer und Pelizaeus Museum Bernward of Hildesheim and the Age of the Otto Dynasty. Ends Nov 28. Daily
LONDON
Royal Academy of Arts American Art in the 20th century. Ends Dec 12. Pissarro's Series Paintings. Ends Oct 10. Daily
Whitechapel Art Gallery Lucian Freud. Ends Nov 21. Closed Mon
Institute of Contemporary Arts Jean Nouvel. Ends Oct 25. Daily
Hayward Gallery Aratjara: the most comprehensive exhibition of Aboriginal art ever seen in Europe. Ends Oct 10. Daily
Tate Gallery Edward Burne-Jones: sketches. Ends Nov 7. Daily
National Gallery The Wilton Diptych. Ends Dec 12. Daily
LYON
Halle Tony Garnier Second Biennale of Contemporary Art: an international retrospective covering major 20th century avant-garde movements up to the present day. Ends Oct 13
MARTIGNY
Fondation Pierre Gianadda Degas: his entire work as a sculptor, 74 bronzes of horses, dancers and nudes, surrounded by dazzling pastels, oils and drawings relating to them. Ends Nov 21. Daily
MUNICH
Kunsthalle der Hypo-Kulturstiftung Dada: 150 paintings, drawings and collages by Marcel Duchamp, Man Ray, Max Ernst, Ribemont-Dessaigne and leading German exponents of the early 20th century precursor of Surrealism, augmented by posters, correspondence and other documents. Ends Nov 7. Daily
Villa Stuck Max Beckmann: 190 prints, woodcuts and lithographs 1901-46 from private German collections. Ends Nov 14. Closed Mon
Alte Pinakothek Homage to Caspar Wolf: retrospective of the late 18th century Swiss artist. Ends Oct 24. Closed Mon
Lenbachhaus Auguste Chabaud (1882-1955): retrospective of a neglected French contemporary of Picasso. Ends Oct 24. Closed Mon
NEW YORK
Metropolitan Museum of Art The Annenberg Collection: 53 impressionist and post-impressionist paintings, watercolours and drawings, surrounded by the museum's own world-renowned collection of 19th century European paintings, all displayed in a newly-reconstructed suite of 20 rooms. Ends mid-Dec. Closed Mon
Guggenheim Museum Paul Klee: 80 works from the museum's own collection. Ends Oct 31. The main museum is closed on Thurs, the SoHo site on Tues
Museum of Modern Art Robert Ryman: 80 works by the American abstract artist renowned for his white paintings. Ends Jan 4. Gabriel Orozco: first US one-man exhibition by the Mexican sculptor and photographer. Ends Oct 18. Closed Wed
Whitney Museum of American Art Hopper in Paris: a selection of paintings completed during the three extended trips Edward Hopper took to Paris as a young man. Ends Oct 3. American Art in Transition 1955-62: 140 works by 21 artists, exploring the evolution from Abstract Expressionism to Pop Art. Ends Oct 10. Closed Mon
PARIS
Musée d'Orsay From Cézanne to Matisse, Masterworks from the Barnes Foundation: an extraordinary exhibition of 80 of the finest impressionist, post-impressionist and early modern paintings, often completed or confronted by paintings from the Musée d'Orsay's own collection. Highlights include Cézanne's large group of card players, his dramatic painting of Les Grandes Baigneuses, Renoir's nudes, Matisse's Bonheur de vivre and a luminously graceful young girl from Picasso's rose period. Ends Jan 2. Closed Mon, late opening Thurs
Musée des Arts Décoratifs Fabergé: exquisite goldsmiths' work produced in Russia by the firm of Carl Fabergé from the 1870s to 1918. Ends Jan 2.
Grand Palais Les Nabis: at the end of the 19th century, a group of committed young painters, including Bonnard, Vallotton and Vuillard, influenced by Gauguin's symbolism and the technique of Japanese engravings, used flat surfaces of pure colour to usher in modernity. Ends Jan 3. Closed Tues, late opening Wed
Petit Palais Masterworks from Leipzig: 85 oils and 104 drawings, comprising works from the German renaissance, 17th century Dutch paintings, 18th and 17th century Italian drawings and the German romantic movement. Ends Dec 5. Closed Mon
PARMA
Magnani Rocca Foundation The Barilla Collection of Modern Art: paintings and sculptures by Picasso, Dubuffet, De Chirico, Magritte, Bacon, Sutherland and other 20th century artists. Ends Nov 28. Closed Mon
ST PETERSBURG
Hermitage Matisse: an abridged version of the recent New York and Paris shows, but augmented by 130 Matisses from Russian collections. Ends Nov 8.
VENICE
Palazzo Grassi The Unknown Modigliani: 430 drawings from the private collection of the artist's friend Paul Alexandre, covering the years 1906-14 and ranging from working drawings to the most fully realised of studies – all a tribute to Modigliani's remarkable natural draughtsmanship. Ends Jan 4. Daily
Fondazione Cini Francesco Guardi: 50 works by the 18th century veduta painter, whose free handling and atmospheric effects stand in marked contrast to the meticulous Venetian views of Canaletto. Ends Nov 21. Closed Mon
WASHINGTON
Phillips Collection The Migration Series: 60 panels of Jacob Lawrence's epic painting of the post-World War One flight of African Americans from the rural south to industrial north. Ends Jan 9. Daily
Walters Art Gallery Artists of Ecouen: 25 drawings recording daily life in late 19th century France, by a group of artists eclipsed by impressionism and the modern movement. Ends Feb 6. Closed Mon
National Gallery of Art Lovis Corinth: 74 prints and drawings by the turn-of-century German painter and draughtsman. Ends Feb 21. Daily
ZURICH
Kunsthaus Bernard Frize: 30 large paintings by one of France's leading abstract artists. Ends Oct 17. North American Indians: paintings, drawings and photographs from the late 19th and early 20th century. Ends Nov 14. Closed Mon
Museum Rietberg African Masters: masks and figures from Zaire, collected over the past 50 years by German ethnologist Hans Himmelheber, and supplemented by his own photographs of the people of Zaire and their art. Ends March 20. Closed Mon

A rapid loss of height

Asian airlines face growing pressure, says Simon Davies

It seemed an unbeatable combination. For more than a decade, south-east Asia's airlines developed a worldwide image of exotic service to exotic locations, while simultaneously profiting from lucrative but restricted routes in their own region's high-growth economies.

But they are suffering the consequences of their push into other aviation markets. They are having to confront more aggressive competition, and a realisation that it may take more than advertisements showing smiling Singapore hostesses to bring in the passengers.

Cathay Pacific, of Hong Kong, recently announced a 46 per cent drop in profits for the first half of 1993. Singapore Airlines (SIA) saw profits fall 8.4 per cent in the year to March, and Thai Airlines announced earnings of 594m baht for the nine months to June – 67 per cent lower than the previous year.

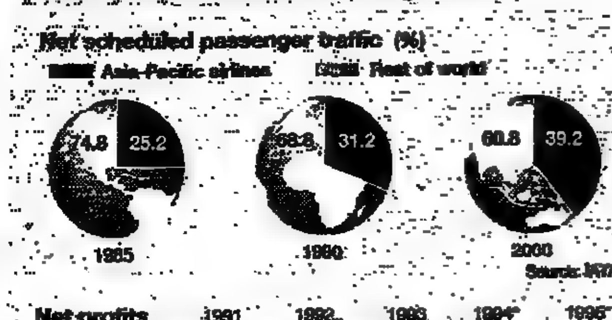
A primary cause of the fall in earnings has been the success of Asia's aviation market: recession-hit western airlines have transferred aircraft to routes into the region to curb losses in their home territories. South-east Asian airlines have also been the victim of the success of their domestic economies, where rising labour and land prices have increased operating costs.

Mr Rod Eddington, Cathay Pacific's managing director, says: "Asian airlines will never be able to rely on the combination of circumstances which they have had in the past, to guarantee them high profitability. They had low labour costs, rapidly growing markets and a substantial degree of lack of interest from North American and other airlines."

According to the International Air Transport Association, the Asia-Pacific region – which stretches from the Indian subcontinent to Australasia – accounted for 25 per cent of the world's passenger traffic in 1985. By 2000, it is projected to represent close to 40 per cent, in an area where average fares are higher per kilometre than in either Europe or North America.

The market's fast growth means that, despite the recent downturn, south-east Asia's airlines remain more profitable than their main competitors, many of which are making losses. SIA and Cathay are likely to be the first and third most profitable airlines in the world this year – even though a cabin crew strike in January is estimated to have cost Cathay HK$240m (£20.2m).

Asia-Pacific airlines: cloudy skies ahead



Net profits	1991	1992	1993	1994*	1995*
Cathay Pacific					
HK$ million	2,995	3,608	2,250*	2,700	3,000
Malaysian Air					
M$ million	197	113	146	275	355
Singapore Air					
S$ million	913	928	851	910	1,055
Thai Air					
Baht million	3,503	3,057	1,060*	2,512	-

* Jardine Fleming forecasts

But a combination of factors is clouding the sky ahead. The most pressing has been Japan's shift towards recession. Japanese travellers represent the largest single market for most of Asia's airlines.

Figures from the Japan Travel Bureau, the tourism office, are expected to show a slight fall in the total number of Japanese overseas travellers during July and August 1993 – the first drop in six years – while Japanese travellers to Asian destinations are expected to fall by 10 per cent over the same period.

The impact has already been felt: Cathay's passenger yields (a measure of revenue per passenger kilometre) fell by 6.1 per cent in the first half of 1993, while SIA's yields fell 6.7 per cent during 1992.

When Japan's economic cycle swings upwards, airline earnings across Asia would be expected to follow, since the aviation industry is sensitive to consumer spending patterns. But each south-east Asian airline faces further individual problems:

● Cathay's profits are being squeezed by Hong Kong's annual inflation rate of 9 per cent. Its efforts to curb costs led to the 15-day cabin crew strike.

● The profits of Malaysian Airline System (MAS) have suffered from misjudgments made in the late 1980s. Over-optimistic estimates of demand growth have left it with too many new aircraft. At the same time, the Malaysian government has fixed prices on domestic routes, which MAS is obliged to operate, at below cost.

● SIA is exposed more than other south-east Asian airlines to the recession affecting European and North American routes, where it has expanded rapidly over the past decade.

● Thai Air has a record of poor management. Past inefficiencies in placing orders for aircraft, for instance, have left the airline with a fleet comprising nine aircraft types, made by five aircraft manufacturers, with three makes of engine. The company plans to simplify its fleet.

Two common challenges face south-east Asia's airlines. The first is the downward pressure on prices caused by competition. The Asian fleet grew rapidly during the 1980s, but demand for tickets always outstripped supply. In the past two years, estimates Jardine Fleming Securities, the Hong Kong-based brokerage, Asian airlines increased capacity by between 10 and 12 per cent a year while demand rose by only about 7 per cent a year.

With orders for aircraft made at least two years in advance, the airlines clearly misread the effects of global recession on the Asian market – a predicament worsened by the arrival of overseas competitors.

Mr Eddington of Cathay Pacific claims the influx of overseas airlines will be short-lived: "Airlines had too much capacity and they have dumped a lot of that capacity on Asia," he says. "They haven't made any money flying those aircraft to Asia, but they have lost less than they would from flying them to North America or Europe."

The new competitors, primarily US airlines led by United, disagree and have been clamouring for more "open skies" – that is, access to the highly profitable restricted routes operated by Asian airlines, such as Hong Kong to Taipei, which is dominated by Cathay Pacific and Taiwan's flag carrier, China Airlines.

Mr Roddy Wilson, Far East general manager for British Airways, says western airlines see a long-term future in south-east Asia. "The increase in capacity underlines the fact that the ability to grow is there. It is likely to reduce yields, but I would have thought that is normal in every industry; those who ordered too much capacity will just have to shake that out."

The second challenge facing south-east Asian airlines is the pressure on costs caused by the strong performances of the region's economies. In an effort to control salary bills, airlines based in the more developed economies have taken on cabin crew from cheaper Asian labour pools, such as the Philippines or India. Cathay has moved some labour intensive operations into China.

But costs will remain hard to control in Singapore, Japan, South Korea, Taiwan and Hong Kong, as these countries complete the evolution from low-cost manufacturing centres to higher value-added service economies.

Shrinking profit margins may eventually be offset by the emergence of new high-growth markets, such as China, Vietnam and Indonesia. But it will prove difficult for south-east Asia's airlines to relive the golden years of the late 1980s.

Joe Rogaly

Wanted: soap-opera star

You have to shake your head to believe it. It is less than a year and a half since the last general election and some of us are already in a fuss about the next one. Technically speaking – and the Grim Reaper permitting – the government elected in April 1992 can sit there until 1997. Even if it follows recent precedent, it need not face the electorate before October 1996. That is three years away. Meanwhile there should be nothing to get excited about. The principal parties are currently led by two grey Johns and a puffed-up Paddy. Political discourse ought to be at a low ebb for, say, at least another 24 months.

That it is not is partly the fault of our national appetite for the savouring of politicians' discomfiture. The British seem to take a particular, and perverse, pleasure in watching holders of high office self-destruct, even to the extent of helping the destruction along a little. Now the hunt is on for a new victim. The pack that brought down Mr David Mellor and Mr Norman Lamont, to name but two, is baring its teeth at the prime minister.

After a bloodletting, the urge to kill is hard to repress. I have to confess that I rode out with the Lamont hunt once or thrice and found the experience exhilarating. The public seems to enjoy the sport as much as the mounted participants. This is one reason, although not the only one, why the Conservative conference in Blackpool the week after next will be about a single subject: can Mr John Major survive?

Patience. Before that we will know the answer to the other great single-question conference of the season. When Labour meets in Brighton this weekend, the matter that will dominate the proceedings will be whether Mr John Smith wins a procedural vote next Wednesday morning. If he fails, local trade unions will continue to exert undue influence over the choice of candidates for parliamentary elections, at least until the issue is obliterated by Labour's national executive committee. The message would be that Mr Smith's leadership of the Labour party has been undermined by powerful trade union leaders. From that it is but a short step to "can John Smith survive?" If he prevails, the selection of Labour candidates will be determined by a vote of registered members of the party. "Smith", the headlines will inform us, "triumphs".

That is the main plot-line. There is likely to be little else to grab the nation's attention in next week's instalment of Britain's soap-opera politics. Yet this ungripping yarn has already determined the shape of the conference. In preparing for it Mr Smith's managers have been faced with an awkward choice. If the candidacy vote had been scheduled for Monday, as was originally the case, rules and precedent would have prevented Mr Smith from speaking before the event. It is alleged that the vote is on a knife-edge, that it could go either way. If he lost on Monday, "Smith humiliated" would have been the message for the rest of the week.

The vote therefore moves to Wednesday morning. This gives the Labour leader his chance to make his big speech on Tuesday. In it he will devote all his Scottish moral passion to an onslaught on the Conservatives. Much good may it do him. He will also seek, without necessarily saying so, to cast himself as a moderniser when it comes to constitutional reform and a Labour radical on the economy. Echoing his speech to the Trades Union Congress a few weeks ago, he will argue for full employment (at least if part-time work is included), the minimum wage, and trade union recognition.

His hope will be that some of his phrases get through, or at least enough of them to give the impression that his factionalised parliamentary party is united and that he is a leader with a sense of direction. We can be sure that it will be a stout effort. Mr Smith can then return to the platform on Wednesday morning to state the case for one-member-one-vote in candidacy elections. With luck, and last-minute scurries, he may even win.

Labour needs to blast away southern voters' image of it as a party that represents life in the co-op and on the council estate

This plot-line has a fatal flaw. It lacks real drama. There is no possibility of blood on the carpet. There has been some debate among the Labour leader's advisers over whether he should say – on Tuesday or Wednesday, it makes no difference – something like "I could not remain as leader of the party if candidate selection is not democratised" or, in headline form, "back me or sack me, says Smith". The argument against such a grandstand play, an argument that as I write still prevails, is that it would echo Mr Major's similar intimations over the Maastricht vote, and thus reveal Mr Smith to be as weak as some perceive the prime minister to be.

It is a poor argument. What Labour needs is something that will blast away the image, held in southern voters' minds, of a collectivist party that represses individual aspirations, the representative of life in the co-op and on the council estate.

As Mr Tony Blair says in the latest Fabian Review, the need is to stamp Labour as the party of "new economic opportunity, not engaged in a battle for territory between private and public sector; as helping people out of welfare, not keeping them on it; of high-quality public services, not the defence of vested interests; of ensuring social action assists individual responsibility and is not substituted for it in areas like crime ..."

The way to get all that across (and there is more on Mr Blair's agenda) is to offer up Mr Smith as a potential sacrifice. We all know the danger of threatening to resign. You may have to. This would be sad for Mr Smith, but Labour without reform of its internal constitution is hardly worth leading. Mr Blair reminds us that the party faces the same task as left parties everywhere, which is to adjust to a changing society, "a question of dealing not simply with the flotsam and jetsam of individual policies or personalities but with a tide of ideas".

Yes and no. When you face a TV-addicted electorate, personal melodrama is likely to be the most effective means of communicating a change in the tide of ideas. "Smith lays his job on the line" followed by "triumphs" would not in itself suffice, but it would start to shake voters' perceptions of the party. As Mr Blair says, looking two or three years ahead, Labour "must fear nothing, except losing again".

LETTERS TO THE EDITOR

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Priority for public transport the cure for road congestion

From Dr Jörg Schimmelpfennig.

Sir, Mr John Gummer, the UK environment secretary, is right to propose road pricing as a means to internalise external costs and thus reduce congestion in London. He would be wrong, however, to follow Mr John MacGregor, the UK transport secretary, by earmarking the corresponding revenues to fund new road building schemes ("Minister hints at road-pricing to beat London jams", September 21, and "MacGregor gets show on the road", September 22, respectively).

As the American economist Anthony Downs found out some 30 years ago, "on urban commuter expressways, peak-hour traffic congestion rises to meet maximum capacity". In other words, congestion, at least in the medium run, is rather independent of the number of roads (or lanes) available.

Instead, the government should be satisfied with having found an *efficiency-increasing* form of taxation or, better still, use the money to pay for public transport improvements which have been overdue for a long time anyway. These would both reduce overcrowding on trains and, thus, by making public transport more attractive, ease road congestion even further.

Jörg Schimmelpfennig,
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Germany

Revival of Docklands

From Mr Michael Pickard.

Sir, Your balanced leader on the Tower Hamlets British National party vote is welcome ("A shiver in east London", September 20). It is vital that the concern generated by this event does not shield the positive changes shaping and improving Docklands and east London.

When the docks finally closed in 1980, the local community here faced no investment opportunities and high unemployment but their strong sense of identity remained. If that position had continued, the community would have had just cause for feeling there was little hope as there were poor communications, little suitable job training, and only modest educational opportunities.

Now, with very substantial commercial investment, and much better job opportunities, especially as the recession ends, there is indeed good reason to be optimistic. Better communications and the new airport, better public transport, housing improvement and more opportunities for home ownership, are all helping to secure the long-term future for residents. There were 27,000 jobs in Docklands in 1981 and the number was falling. We have secured 55,000 now, and the number is rising. There were about 1,000 businesses and there are nearly 2,500 now. Canary Wharf, for example, has made particular efforts to target job opportunities on local residents with almost 800 local people so far finding work at Canary Wharf during the course of the project. Unfortunately, there are no data linking jobs to residents for the total 55,000 jobs.

Change inevitably brings some tension as we have to adjust to new technologies, different job opportunities and new life styles, and sensitively deal with the housing and educational priorities demanded by demographic and ethnic change. All of us who are committed to improving this area, including ourselves, Tower Hamlets Council, and many other organisations, work closely together to try to deal positively with change and growth. We are confident that we shall succeed both in making this area an economic success and in promoting a harmonious community, but this requires continuous effort, particularly to improve educational achievement.

Michael Pickard,
chairman,
London Docklands Development Corporation,
Thames Quay,
191 Marsh Wall,
London E14 9TJ

'Last days' lasting a long time

From Ms Felicity Robertson.

Sir, For at least the last 365 days the media has been forecasting the last days of John Major. I'm sure he will be enjoying his "last days" in the next 365.

Felicity Robertson,
Nansidwell Hotel,
Mawnan, Cornwall

Industry must play part in technology programme

From William Waldegrave MP.

Sir, I welcome Paul Ruskin's letter about the 'technology foresight programme' (September 20). We all agree that the UK – including both private and public sector funders of research and development – should benefit from a clear vision of priorities.

I agree with much of Mr Ruskin's general argument. Decisions need to be taken by industry on where the UK ought to try to be a world leader, where it might do better to collaborate, and where it would do better to buy in technology.

The government's white paper on science, engineering and technology, Realising our Potential, sets out how a new working partnership should be developed between scientists and industrialists to assess the significance of emerging technological trends and market opportunities.

Key factors in considering priorities will no doubt need to be whether there are strong market signals that a technology can improve our competitiveness; whether UK companies can, realistically, hope to capture markets which depend on the particular technology; and whether our science, engineering and technology base is judged capable of achieving world leadership, or parity, in the technology.

I have initiated a series of consultative seminars on the best way to organise a 'technology foresight programme'. It is essential that industry and other users of research are fully involved and in the driving seat in this exciting new exercise, particularly to ensure that it is sufficiently responsive to market pull and not just technology push. We will then need to weigh up the objective evidence in the light of the consultation process, assess expert views as widely as possible, and come to robust conclusions.

I look forward to those conclusions and expect that they will provide the UK with a clearer grasp of strategic priorities than we currently have.

William Waldegrave,
minister of public service and science,
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A danger to remember

From Mr Allan Griffiths.

Sir, Before we get too carried away by reports about the governor of the Bank of England's discussions with the high-street banks over their lending policies towards the smaller business, we should remember the dangers of over-expansion as we come out of recession ("Bank governor calls in clearers", September 21).

Of course we should encourage industry to grow and invest, but having survived the recession the companies that have learnt to play defensively must not go down because they are now encouraged to over-trade. The disciplines that the banks' lending policies impose should protect many survivors from this danger.

Receivers are often accused of being the undertakers to British industry, yet a large proportion of our work is in helping industry and lenders redirect businesses that might have failed to survive.

Experience has taught us that more companies fail coming out of a recession than during one. If we are to learn from the mistakes of the past, industry/lenders/advisers have all got to work together to make certain that the light at the end of the tunnel is not the proverbial train.

Allan Griffiths,
head of corporate recovery,
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Answer to violent crime in US

From Mr Mark Gerard Nichols.

Sir, As an American expatriate living in Paris, I am often asked: "Are the United States as dangerous as they seem?" Unfortunately there is no denying the statistics. The recent attention given by the media to violent crime against tourists ("Florida struggles to limit damage to tourist industry", September 16) only highlights events that have been dramatically increasing for years.

The measures being implemented by the state of Florida will only temporarily stem the flow; it must be realised that until we elect an administration willing to confront the powers of the National Rifle Association and restrict the rise of handguns, nothing will change in the short term.

Loss estimates for Florida's tourist industry are running close to $1bn. Perhaps this will hit the legislators most effectively – in their pockets.

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Friday September 24 1993

Next steps for Mr Yeltsin

BORIS YELTSIN seems to be winning his gamble. By cutting the constitutional knot ravelling Russia, he has given himself room for manoeuvre. But to succeed, he must now exploit it.

When a country's constitution prevents it from being governed, extra-constitutional action is inescapable. In such situations, power resides with those who command the loyalty of the apparatus of coercion. President Yeltsin has this far proved to be that person. So long as his opponents remain ineffective, even ridiculous, Mr Yeltsin should scrupulously avoid doing anything to turn them into martyrs. But if they were to appear capable of thwarting the elections he proposes, let alone of starting an armed insurrection, he would have to prevent them. Even the possibility of such action would make many in the west uncomfortable. But the west's interests are inescapably aligned with those of Mr Yeltsin on the need for civil order and reform.

If this sombre possibility is to be avoided, the Russian president must make his authority unquestionable. Often the appearance of authority creates the reality. Mr Yeltsin must use his present advantage, therefore, if he is to retain it.

The first requirement is implementation of the elections for the new lower house both expeditiously and efficiently. According to Mr Vladimir Shumeiko, brought back into his former position as first deputy prime minister, the new lower house – to be known as the State Duma – will have 270 of its 400 deputies elected from single member constituencies and a further 130 elected by party lists. This last measure will give fledgling parties a role, and offer them a lever for exerting party discipline. Meanwhile, the upper house, or Council of the Federation, will not initially be elected. It is currently composed of the leaders of the regional and republican administrations and soviets, and will be transformed into the senior legislative chamber. In current Russian circumstances, these proposals seem rather sensible.

The second requirement is early promulgation of a new constitution. At the moment there are two versions on offer, the parliament's, which unsurprisingly gives power to parliament, and the president's, which gives power to the president. The latter is at present the only basis for stable democratic rule in Russia. In the absence of parties or even a broad umbrella reform movement, a parliamentary system cannot produce stable, responsible government. Moreover, those who stand for the power of parliament are hostile to democracy, while the president's party contains most of those who believe in it. But a presidential constitution would need checks and balances, including a clear division of powers, entrenched individual rights and a new supreme court.

The third requirement is rapid implementation of economic stabilisation and reform. The chief justification for Mr Yeltsin's action is that parliament was destroying all hope of rescuing the Russian economy. If the government fails to act decisively now, it will destroy the case for the president's actions. Mr Yeltsin must support Mr Yegor Gaidar, back as first deputy prime minister, and Mr Boris Fyodorov, the finance minister, in their attempts to control the budget deficit, restructure prices, reform trade and liberalise the economy. As and when such action is forthcoming, the west must promptly put its long promised financial support in place.

Russia's long-awaited economic and political reform must start right now. The next year could then see election of parliament and president, introduction of a workable constitution and a start on economic reconstruction. This is the task Mr Yeltsin has set himself. For the sake both of his country and the world, he must succeed. The west, for its part, must do what it can to help.

Times a-changing

BRITISH time is out of joint with the rest of Europe. That the UK spends most of the year lagging an hour behind the rest of Europe is an unnecessary disruption to the life of British business and commerce. That summer-time ends a month later in Britain than on the continent, where the clocks fall back this weekend, only adds to the confusion.

It's time for a change, as Mr Michael Howard has acknowledged. The home secretary wants Britain to move to what his ministry calls "single double summer-time", code for continental European time. Winter-time would then arrive one hour ahead of Greenwich mean time, and summer-time two hours ahead.

Conservative defenders of GMT are up in arms. But it is northern Scots who deserve sympathy. Daylight in the Scottish isles would then arrive well after nine o'clock in winter, although their short evenings would be longer.

Euro-sceptics are likely to cause more serious problems for the government. It will rely on evidence that lighter evenings mean fewer traffic accidents. But subsidiarity allows governments to choose common European standards if they wish. A pan-European time-zone is in Britain's interests. Mr Howard should say so.

Liberal hopes

MR PADDY ASHDOWN is right to ignore those who would have him declare that the Liberal Democrats will support a future Labour government but not a Conservative one. The role of his party is still what that of British centre parties has been for most of the century: to prevent the parties of the left and the right from moving towards the extreme. To do that it is necessary to keep them guessing, at least between elections.

There would also be no political advantage in promising a post-election pact with Labour now. The effect might be to deprive the Lib Dems of their most precious current asset, the anti-Conservative protest vote. It would anyway reduce Mr Ashdown's party to that of an appendage.

That said, the Liberal Democrats profess views that are virtually indistinguishable from those of the "modernisers" in the Labour party. At the Lib Dem conference in Torquay this week nothing was proposed by anybody, including Mr Ashdown himself, that Mr John Smith, the Labour leader, could easily quarrel with. The Liberal Democrats stressed individualism, within a community framework, overseen by an active government; at its conference next week Labour is expected to favour an active government, community values, and room for individual expression.

Mr Ashdown's party favours a Scottish assembly, regional parliaments, reform of the House of Lords and proportional representation; Mr Smith's a referendum on the latter and a version of all of the other proposed constitutional changes. Both parties are pro-European, Mr Ashdown's the more strongly of the two, but in the Liberal Democrats' case there has been some retreat, as in their leader's speech yesterday, from the notion that Brussels knows best. The two opposition parties would both propound full employment and greater government expenditure, Labour while limiting tax increases, the Liberal Democrats while attempting to explain them.

More to the point the growth in support for Mr Ashdown's party is largely explicable by the unpopularity of the government. The Lib Dems have established a base as the principal challenger to the Conservatives in the west of England; they are no such threat to Labour in the north. This is in line with the historic experience of the Liberals since 1945: when the Conservatives are in power but out of favour, the non-socialist alternative party does well.

At this stage there is little point in picking holes in this or that Liberal Democrat policy document. They are far from power, and their best chance might be, willy-nilly, to vote with a Labour government, assuming one is elected. It may be, however, that the present increase in support for the Lib Dems is no mere blip – that, as Mr Ashdown intimated yesterday, further hard work by the party will bring further advances in public support.

This is possible, but it is *not* entirely for Mr Ashdown to determine. If Labour is seen at its conference next week to be on the way to true modernisation, it may begin to attract voters in natural Liberal Democratic territory. If not, the reverse could be the case. Again, if the Conservatives trip themselves up for another year or more, Mr Ashdown will reap a rich harvest; if the Tories recover their sense of purpose, they may begin to recover their electorate.

It is the fate of British centre parties thus to be at the mercy of Labour and the Conservatives. Much was said in Torquay about the feel of things being different this time. Mr Ashdown has projected himself as an anti-politician, a British Ross Perot. It has taken him, and his party, a long way. He is more popular than either Mr Smith or the prime minister. He can do little other than carry on as an independent force, waiting to see what turns up.

The Clintons' healthcare reform plan is controversial but crafted to have a broad appeal, writes **Michael Prowse**

Harsh medicine's tastegood factor

President Bill Clinton has crossed the Rubicon on healthcare. After his impassioned speech to Congress on Wednesday night, it is hard to doubt that the US will enact a comprehensive reform within the next year. Many of the details of Mr Clinton's plan will be changed in what is likely to be the most fiercely lobbied legislation in US history. But America is now firmly on the path to fundamental reform.

This is no small achievement. Since the early 1970s, when Richard Nixon unveiled abortive reform proposals, successive presidents have shied away from this most intractable of American social problems. Unlike his predecessors, Mr Clinton has always wanted to embrace the complexities of healthcare reform. He had to go through the grind of a deficit-cutting budget earlier this year. But healthcare is what he really cares about: it is the heart and soul of his presidency and he will be judged by the perceived success of his reforms.

When Mr Clinton waved a credit-card sized prototype Health Security Card in front of Congress and pledged to provide care for all Americans "that can never be taken away", it was clear that he regarded himself as the heir of a long tradition of Democratic social reformers. He referred obliquely to Franklin Roosevelt, who laid the foundations for the US welfare state in the 1930s with the introduction of social security (old age pensions) and unemployment benefits.

Today, said Mr Clinton Americans could not conceive of a world without public-sector pensions; in 50 years (thanks to his reforms) they would be unable to imagine lacking access to healthcare.

He stuck to six broad principles. Reform, he said, should offer "security, simplicity, savings, choice, quality and responsibility". The political advantage of not getting bogged down in complexities is that, even if congressional committees greatly alter the details of his plan, Mr Clinton can still claim credit for the final reform – or at least share it with his wife, Hillary, who led the healthcare task force. Conscious that fundamental change cannot be wrought without Republican support, Mr Clinton also made a strong appeal for bipartisan backing.

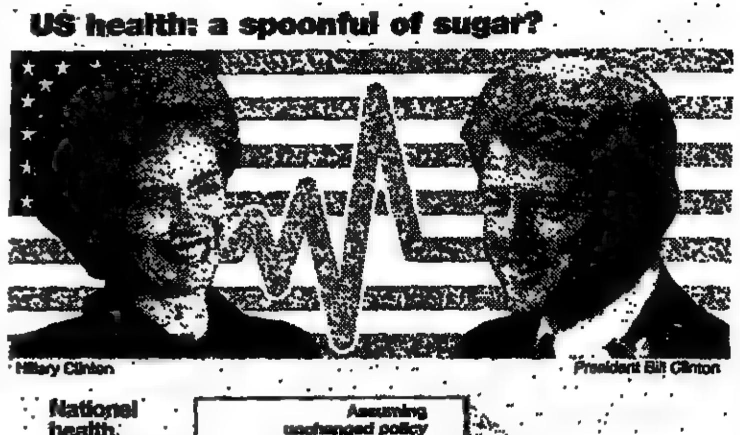
The plan is crafted to appeal to different constituencies. Mr Clinton wants to introduce a form of "managed competition" – a concept invented by conservative-leaning economists such as Mr Alain Enthoven of Stanford University. The basic idea is that most people would be enrolled in large, regional purchasing co-operatives known as "health alliances". The theory is that alliances would use their market clout to obtain high-quality care at the lowest possible prices from competing groups of doctors and hospitals in the private sector. Companies with more than 5,000 employees would be able to set up their own "corporate alliances".

Alliances would publish information about the price and range of benefits offered by the competing health plans in their areas, each of which would have to offer a federally certified package of standard benefits. Individuals would choose from among the plans. Employers would have to pay at least 80 per cent of the cost of the average premium of locally available plans. Government subsidies would ensure that health costs would not absorb more than 8 per cent of total payroll spending; for small companies with low-paid employees, the cap would be set at 3.5 per cent of payroll. The unemployed, the self-employed and other people on low incomes would receive direct subsidies to enable them to purchase care via an alliance.

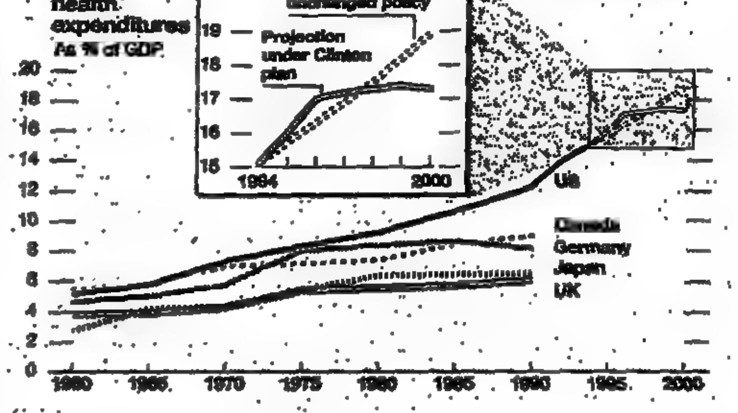
Since the employer contribution and/or the government subsidy would be based on the average cost of insurance premiums, individuals would have an incentive to select the cheaper plans. This tendency would be strongly reinforced by proposed rules on direct patient contributions. Individuals who enter pre-paid Health Maintenance Organisations (HMOs), which deploy "gatekeepers" akin to British GPs and allow patients to consult only a limited number of specialists under contract with the plan, would pay a flat $10 a visit. But those who select unrestricted "fee-for-service" plans, under which physicians charge separately for each item of service, would have to pay 20 per cent of each bill – in addition to their 20 per cent share of the insurance premium itself. The likely result would be to push all but the affluent into HMOs.

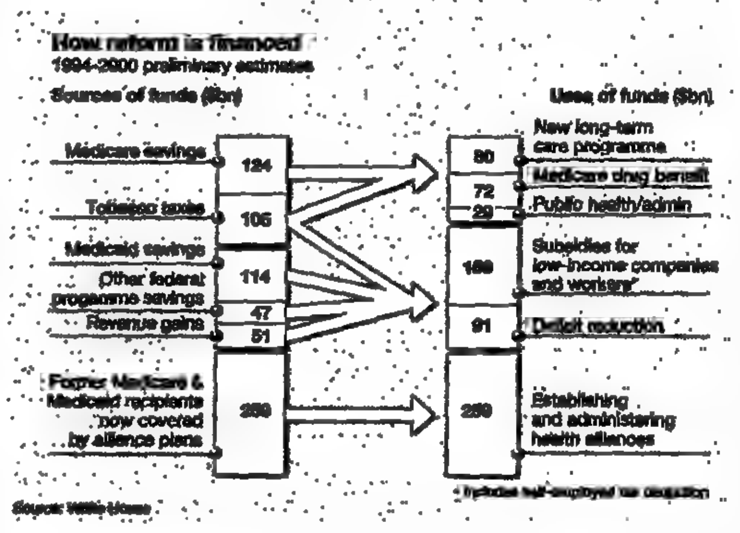
This version of managed competition, however, is to be buttressed by a series of reforms calculated to appeal to left-leaning Democrats. The Clinton administration would set up a seven-member National Health Board with general powers to regulate the entire healthcare industry – one-seventh of the economy. It would oversee the creation and operation of the health alliances, which would be quasi-public bodies. It would have powers not only to limit spending on public schemes, such as Medicare (for the elderly), but also to limit the rate of growth of the premiums charged by private-sector health plans. Although the White House has rejected direct controls on the prices of drugs and other forms of healthcare, by setting caps on premiums it would thus impose budgetary controls on the private sector for the first time.

US health: a spoonful of sugar?



Hillary Clinton — President Bill Clinton





Mr Clinton would also strive to improve the fairness of the healthcare system and redirect spending from high-tech medicine to primary and preventive care. Financial incentives, for example, would encourage medical students to become general practitioners, a comparative rarity in the US, and to practise in under-served inner cities and poor rural areas. Planned new benefits would include long-term domiciliary care for the elderly and chronically ill and an increased range of services for the mentally ill – a group discriminated against in the present system.

Mr Clinton is wooing support from the nation's governors by offering individual states considerable flexibility. States that dislike the concept of managed competition can opt for a Canadian-style "single payer" system under which the state government would purchase all care for citizens from competing groups of private-sector providers.

Individual employees would choose from among competing plans. Employers would simply provide resources

He will also let states introduce the reforms as and when they are ready with a final deadline for creating alliances of January 1997.

The president presented his plan as an evolutionary advance from the present system. In many ways this is an understatement: it involves *big* and controversial changes. *Much attention is being* focused on the fairness or otherwise of imposing a legal requirement on employers to pay at least 80 per cent of the average cost of health premiums. To the objection that this is unjustified coercion, Mr Clinton's reply is that many companies will be better off: under the present voluntary system, large companies often pay 100 per cent of health costs. Small businesses that already provide insurance will gain the most, because their costs will be capped well below current rates. It is only "free riders" that will face a financial penalty.

What the debate about the "employer mandate" tends to mask is that the planned creation of huge regional purchasing co-operatives involves a much reduced role for employers. Under the present rules, they pay for employees' insurance but they also make the important decisions – for example, whether to put employees into an HMO. Under the Clintons' scheme, individual employees will choose from among the competing plans offered by the local health alliance. Employers enter the picture only as providers of resources: their 80 per cent contribution is effectively a payroll tax.

Mr Clinton's decision to put individuals at the heart of his system should please conservatives. But if employers are to be used only as a source of revenue, the question arises: why pick on them? Payroll taxes are already high and the system of subsidies proposed for small business looks complex. In economic terms it would make more sense to finance healthcare through a consumption tax, for example a national value-added tax, which would not tend to reduce demand for labour. Mr Clinton's reply would be that such an upheaval is not

The big question is how much of the plan Mr Clinton can get through Congress. The omens are encouraging

politically feasible; he has to build on present arrangements which happen to put most of the financing burden on employers. In the longer run, however, finance could be sought from other sources.

The proposed new limits on the permitted rate of growth of premiums *for private health plans also* represent a radical departure. It is one thing to put curbs on the permitted growth of tax-financed healthcare – every country does this. But Mr Clinton is trying to place controls on private-sector spending. Many conservatives will argue that this is wholly unacceptable: even Britain, with a nationalised health system, does not try to limit the growth of private-sector health premiums.

The most damaging critique of the White House plan is perhaps that the numbers do not add up. Mr Clinton is proposing to extend insurance cover to 37m people (15 per cent of the population) and offer all families benefits as good as if not better than those provided by Fortune 500 companies. He is also proposing extensive subsidies for small business and low-income families. Yet he claims this can be financed without a substantial increase in income or consumption taxes (the only new levies planned are minor "sin taxes" on cigarettes). Additional spending of $350bn (£230bn) between 1994 and 2000 is to be financed by halving the planned growth of existing federal schemes such as Medicare and Medicaid (the scheme for the poor). Indeed, the White House claims the scheme will actually produce net savings of $91bn which could be used to reduce the budget deficit.

Scepticism is understandable: the costs of most previous social reforms has been grossly underestimated. Yet it is important to be clear about what Mr Clinton is actually proposing. On his own numbers he is planning to increase healthcare spending from 14 per cent of GDP today to nearly 17.5 per cent by end of the century. That ought to provide sufficient room to expand insurance coverage and improve benefits: the US would be spending roughly three times as much of GDP on healthcare as Britain. The talk of "savings" is illusory (as usual) because they are measured relative to baseline projections that, on unchanged policies, show healthcare absorbing an exorbitant 19 per cent of GDP by the end of the century, rather than levelling off at 17.5 per cent.

The big question is how much of the plan Mr Clinton can get through Congress. The omens are encouraging. The healthcare cost explosion has been accompanied by growing public anxiety about access to care. Those affected include not only the uninsured but millions of middle-income families who fear loss of insurance cover should a breadwinner lose a job or contract a serious illness. Many families have also been adversely affected by employers' decisions either to wind up company schemes or sharply cut benefits.

The upshot is that opinion polls indicate a surprising degree of public support for radical reform. According to a New York Times/CBS poll, 90 per cent of the population (including 85 per cent of Republicans) say the healthcare system needs either complete rebuilding or fundamental change – though 70 per cent were happy with their own care. More than 80 per cent appear willing to accept reforms that would limit their access to doctors, a proposal once regarded as political suicide. This may reflect the revolution already under way in the private sector: as companies have sought to contain runaway costs, the proportion of people enrolled in HMOs and other forms of "managed care" has already risen from 9m in 1980 to 41m today.

As was evident on Wednesday night, the attitude toward reform on Capitol Hill is positive. After the frustrations of the Reagan/Bush years, when rivalry between a Republican White House and Democratic Congress caused legislative "gridlock", senior politicians in both parties are keen to make progress. The risk, however, is that, as lobbyists step up their pressure on Congress, controversial elements of the Clinton plan – such as mandates on employers – will be dropped or watered down. There is little doubt that the US will enact the appealing elements of the plan, such as guaranteed health cover for all; the difficulty will be ensuring that the unpleasant medicine is also swallowed.

OBSERVER

The hand that feeds

■ Under-capitalised small businessmen would doubtless have little sympathy with the plight of 26-year-old Richard Li, who cannot quite decide how best to deploy the tidy $400m that has just landed in his bank account.

Half the cash has come his way following the sale of a stake in Hong Kong-based satellite broadcaster Star TV to Rupert Murdoch, while his father, Li Ka-shing, one of the colony's leading businessmen, was so proud of his offspring's handling of the deal that he made it up to a round $400m from the family coffers.

But Li is engagingly vague as to how he intends to spend his largesse. "I'm in the position of having a completely blank sheet of paper," he confesses, adding that he rather fancies bringing "existing state-of-the-art technology to virgin markets in Asia." Not that that rules out investment in "conservative businesses" such as property and infrastructure, he goes on.

But how about his recent elevation to the position of deputy chairman of Hutchison Whampoa, the colony's oldest company? Might there not be, even in broad-minded Hong Kong, well, a slight conflict of interest?

Describing the Hutchison job as a "family obligation", which at this stage does not absorb all his energies, he insists that, should any minority shareholder express such concerns, he would naturally consider stepping aside.

Li reckons his new venture will take six to eight months to establish and he even fights shy of divulging a name. But at least there are no immediate staffing problems; 70 of his former Star colleagues are apparently poised to follow the pied piper.

Compromising

■ The computer spell check contained within Microsoft Word 5.0 has more than met its match with the name of chief secretary to the UK Treasury, Michael Portillo MP. Mischief Bordello MP, it suggests hopefully.

Authoritative

■ Tuesday's announcement that Sir John Banham will become chairman of Tarmac early in the new year has set tongues wagging in the local government world. Banham is chairman of the Local Government Commission which is busy reorganising English local authorities. It is unlikely to have completed its task much before the end of next year.

Although Banham has told the commission that he plans to see the review through to the end, this looks like an excellent early exit

'In the event of civil war, both sides will have the same nuclear codes'

route for him. He hinted in the summer that he would resign if the government rejected the commission's recommendations and ministers are promising to do just that if, as expected, the commission decides to leave some counties unchanged.

Mandarin speak

■ Now that Wendy Pritchard is working roughly one day a month to develop the Treasury's fusty management habits, expect a rash of orders from nervous mandarins for her book, *Changing the Essence*.

Written last year with long-time collaborator Richard Beckhard, the volume is brimming with tips to big organisations on how to change their cultures, garnered from her experience advising the likes of Shell and Lloyds Bank. If the Treasury takes this advice, it can look forward to turning itself into a "learning organisation, with policies and practices that support this stance".

Meanwhile, permanent and deputy secretaries have the prospect of becoming "deeply committed to personal leadership of change programs consciously designed to create the organisation's best future".

The advice to create "a superior ability to sense signals in the environment" presumably betrays a deep understanding of the importance of improving the Treasury's forecasting record.

Gift of the gab

■ While Bank of England governor Eddie George has international director Andrew Crockett to thank for much of the substance of his thoughtful speech earlier this week on how Europe should face up to the post-ERM age, Crockett himself may well already be looking forward to a much larger stage from which to air his own views on world economic affairs.

For Alexandre Lamfalussy, the sensible but somewhat crusty general manager of the secretive Bank for International Settlements, steps down next summer and Crockett has emerged as the front runner to replace him at the Basle-based central bankers' bank.

His appointment would be cheering news for Britain, which in the BIS's 63-year history has never managed to secure a UK national at the top of the organisation. It would also dovetail neatly with UK aspirations to muscle into the mainstream of European economic thinking now that the continent is staring a broken exchange rate mechanism in the face.

An outgoing 50-year-old, who has been marked down for higher things ever since he took over his Threadneedle Street job in 1989 after a 17-year stint at the International Monetary Fund, Crockett is one of the more talkative and free-thinking among UK economic policy-makers. So he would be expected to inject a new sense of drive; the BIS certainly could do to speak up rather more than in the past when it comes to big discussions on whither the world economy.

Top of the pops

■ A quick-witted reader tries flattery to trump the anagram Observer published earlier this week in which The Financial Times is transformed into Silent Mafia Inc. Incites Fan Mail, he suggests. QED.

FINANCIAL TIMES
Friday September 24 1993

IMF issues warning over risks in $8,000bn derivatives market

By John Gapper, Banking Editor, in London

A STRONG warning has been issued in an International Monetary Fund study about risks in the $8,000bn (£5,195bn) markets in derivatives such as futures contracts and currency and interest rate swaps.

It says many transactions are not fully understood by the senior managers of banks and securities houses.

The IMF study is among the more cautious recent analyses of the $4,500bn market in over-the-counter derivatives which are designed and sold by relatively few banks and securities firms with strong capital.

It follows a more sanguine study by the Washington-based Group of 30 large banks and financial institutions last month, which recommended management reforms to reduce risks such as default by counterparties, but argued that the risk of systemic failure was low.

The risks to financial markets posed by derivatives will be one of the chief topics discussed by bankers at the World Bank/IMF meetings in Washington. Central bank supervisors are to address the issue at a meeting organised by the G30 next Monday.

The IMF analysis in a study of international capital markets emphasises concerns that the growth in derivatives trading, as companies have sought to hedge the risk of interest rate and currency movements, could have created unknown risks for banks.

"Participation in derivatives markets can cause firms to become connected through complicated transactions in ways that are not easily understood," says the study. This makes it difficult to assess the risk of default by the other party.

Derivatives are financial contracts the values of which are determined by the level of an underlying instrument such as exchange rates or currency values. They allow companies to hedge risks, for example by swapping a variable rate obligation for a fixed rate one.

The study says that it is "not entirely reassuring" that banks have escaped problems until now. Similar rapid growth of a single activity by banks in the past has been accompanied by "both a weakening of internal controls and an under-assessment of credit risk".

The credit risk taken by banks in their derivatives exposures is equivalent to the cost of replacing a contract if the counterparty defaults. This is a fraction of the contract's notional value – between 2 and 4 per cent in the case of interest rate swaps.

In the 10 large US banks which have the bulk of credit exposure, the replacement cost of interest rate and currency swaps at the end of September 1992 was $170bn, equivalent to 17.3 per cent of their assets.

The study says that banks tend to try to reduce exposures to market risks such as a fall in the value of a contract due to an interest rate movement by taking new derivative positions to balance existing ones. *International Capital Markets Part 2: Systemic Issues in International Finance. IMF. 700 19th Street NW, Washington DC, 20431. $20*

Gait danger, Page 6

VW apology over Skoda

Continued from Page 1

loan came as a shock in Prague.

Only a day before the announcement, Mr Vaclav Klaus, the prime minister, had welcomed the planned financing, which was to be guaranteed by the Czech government. VW said the financing package was no longer necessary because productivity improvements at Skoda meant investment requirements would be considerably lower than initially planned.

The VW group is undertaking a fundamental review of its capital spending plans and is expected to announce further far-reaching cuts in November after a meeting of its supervisory board.

VW took a 31 per cent share in Skoda in 1991 and is due to raise its holding to 70 per cent by 1995.

It has planned to increase Skoda's production capacity to over 400,000 cars a year, more than double present capacity, modernising facilities and expanding products by introducing a second car range.

US drug majors say health plan may cut research funds

By Richard Waters in New York, Paul Abrahams in London and Lisa Bransten in Washington

US pharmaceutical companies yesterday warned that President Bill Clinton's health reform plan could force them to cut spending on the development of drugs.

Drug stocks staged a small recovery, however, after their steep falls in recent months on early indications of the shape of the Clinton plan.

Senior drug company executives generally expressed support for Mr Clinton's aims in reforming the healthcare system, but objected to the price controls and forced rebates in the plan. The proposal to monitor prices on new drugs, the requirement for drugs companies to offer larger rebates to Medicare, and the overall cap on healthcare spending, prompted the most dismay among company executives.

"New Medicare rebates would increase the corporate tax burden by billions of dollars a year, taking money from new drug research budgets," said Mr Ray Egan, senior vice-president of Bristol-Myers Squibb. "Research and development would be less likely because it would be more difficult to recover the costs associated with bringing a new drug to market."

Schering-Plough warned: "Rebates, rationing and global budgets – all a form of mandatory price controls – pose a significant threat to the continued viability of the pharmaceutical industry. Such controls will inevitably curtail R&D risk-taking."

The US drugs companies claimed that market pressure for lower healthcare costs had already led to a sharp fall in drug price inflation, and that this process should be allowed to continue unhindered by regulation.

All the leading US drug stocks were up by midday yesterday, with the biggest gains seen by Pfizer, up $1⅛ to $62⅝, Bristol-Myers Squibb, up $1½ to $58⅝, and Schering Plough, up $1⅞ to $64⅝. But the rises come after declines which have wiped about 40 per cent off the value of the biggest drug companies this year.

European drugs companies, meanwhile, broadly welcomed Mr Clinton's reforms, but also expressed concerns about the Medicare rebates. Many European groups generate more than 25 per cent of their sales in the US, the world's largest drugs market worth about $65bn a year.

Dr Richard Sykes, Glaxo chief executive, said: "The plan itself is a bold initiative and we give it broad support," but added that if the government "insists on everything on the cheap then the industry has a problem".

Stern test, Page 6
Tastegood factor, Page 19
Lex, Page 20

THE LEX COLUMN

No cheer at Guinness

Since whisky drinkers tend to be older people, it starts to look as though they will all be dead before they get round to trading up again. Yesterday's interim figures from Guinness were another case of hope deferred, this time till 1995. First half spirits profits fell 10 per cent at constant exchange rates, and, while whisky sales rose 2 per cent by volume, luxury brands showed a fall of 5 per cent. The longer Guinness continues to produce such disappointing results, the more insistent is the question of whether a strategy based on pushing customers towards ever more expensive brands is fundamentally flawed. It is not much consolation that all the volume fall in luxury brands was due to specific problems in Thailand, Mexico and Brazil. These are just the sort of emerging markets tailor-made for trading up.

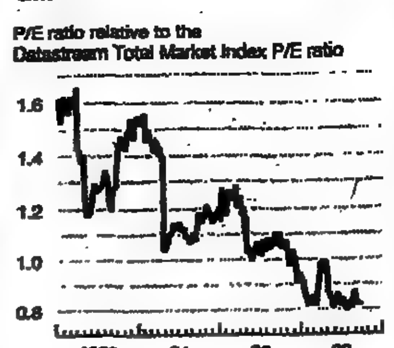
Having set so much store by brand enhancement, though, Guinness cannot afford to admit to doubt. It may be right that economic recovery will eventually revive demand for high-priced spirits, but the faint flicker of a revival in the US is hardly yet conclusive evidence. One problem is that high stocks will keep the base price for standard whiskies depressed. That will limit Guinness' ability to raise prices on its premium products.

At best, it will be years before the Guinness promise feeds through to profits growth. At worst, the company faces the tricky task of shifting from high margin exclusive brands to a more volume-driven approach. Guinness already seems to be hedging its bets by stepping up its marketing effort on neglected cheaper brands. Its strong cash flow and dividend cover provide some reassurance, but, even at last night's close of 427p, a yield of 3.5 per cent is hardly attractive.

FT-SE Index: 3001.3 (-6.2)

Guinness

P/E ratio relative to the Datastream Total Market Index P/E ratio



Source: Datastream

Pharmaceuticals

The muted response of the stock market to President Clinton's healthcare proposals reflects the absence of either hard detail or nasty shocks. Drug companies should gain volume sales as the healthcare net is widened. The trade-off is lower prices as the discounts demanded by the government's Medicare programme for the elderly increase, and power concentrates in the hands of big private sector buyers. The overall impact is likely to be negative, but investors were anticipating as much. The extent of the damage will not be clear until the process of political horse-trading has come to an end.

True, drugs companies have escaped direct price controls. But prices paid by big buyers of healthcare are already falling as market forces take hold. By proposing to extend the role of such buying groups, President Clinton is simply accelerating the trend. Capping the rate of growth in health insurance premiums may anyway have much the same effect as direct controls, since insurers will have more of an incentive to restrict the cost of claims. Making all employers bear at least 80 per cent of healthcare costs will equally increase the number of parties with an interest in keeping drugs prices down.

The range of responses by drugs companies to such change, in the US and elsewhere, suggests a degree of confusion. Glaxo believes that innovative research and good marketing will suffice. Wellcome is developing its position in over-the-counter medicines, while others are moving into low-cost generic drugs. Merck's acquisition of Medco, the postal drugs distributor, is a bold attempt at vertical integration. Not all the options will turn out to be correct.

Wm Morrison

Chill winds from the north blew through the food retailing sector yesterday and knocked another 5 per cent from Tesco and Sainsbury's share prices. William Morrison's interim figures showed just how pressure on margins is increasing with turnover up by almost 20 per cent and profits up by barely 5. Equally alarming was the company's acknowledgement that consumers are trading down, and that Morrison will respond with lower margins. The message for those superstore operators who have paid up to twice what Morrison has forked out on a typical site is clear. Returns on capital employed – which the grocers have long argued are not excessive – seem about to turn distinctly sour. Aggressive pricing of branded products may also intensify as manufacturers respond to weak sales with price cuts, exacerbating the deflation of superstores' turnover and profits.

As share prices fall, however, the search for value starts. Morrison is particularly badly placed since its miserly 1 per cent yield offers little defence. Even with most of the profits retained in the business, there will be a cash outflow over the next year to pay for the "unabated" store opening programme and new distribution facilities. On that basis, Tesco's 20 per cent yield premium to the market ought to offer some comfort. Yet its higher cost base and the suspicion that the fall in gross margins has only just begun will weight heavy. Even mighty Sainsbury's sub-market yield looks under threat. Sainsbury has always looked immune to the sector's troubles. But until yesterday, that was true of Morrison, too.

Mirror Group

The run up in Mirror Group's shares over the past year is good news for the administrators, but raises the question of how much value is left for those who are lining up for the book-building exercise. There will be no dividend until 1994, and even then any payout is likely to be modest. At the same time, the current share price of 178p offers buyers only a small discount to the market's rating. Given the risks, a lower rating may be required to shift such a large stake.

Most worrying is the thought that the genial bonhomie of the chancellor masks a preparedness to slap VAT on newspapers. He has, after all, taken on lobbies such as doctors, teachers and the police in the past. That would give another twist to the screw currently being applied by News International's cover price cut. So far, the Mirror's circulation has not been damaged, though given its heavy dependence on circulation revenue it can neither afford to match the effort nor allow a long term gap to open. Perhaps potential investors should ponder the fact that no buyer has been prepared to pay for control of this singular media product at anything like the current share price.

Kuwait misled UK over shares

Continued from Page 1

years. The best known beneficiaries of this convention are the hugely wealthy oil-producing states such as Abu Dhabi, Brunei and Kuwait, which have built up large portfolios of securities and property in the UK and other industrialised countries.

The disclosure of Kuwait's ruse to disguise the ownership of the BP shares is certain to complicate relations between the UK and one of its closest Gulf allies.

The Financial Times has obtained documentary evidence that the KIO has managed KPC's funds for 10 years. This secret arrangement between the KIO and the KPC has for the first time been confirmed by the president of the KIO, Mr Rashaid Al-Badr. "We manage money for the KPC," he said.

Mr Al-Badr, however, said he did not believe the KPC had bought the BP shares, although he was not at the KIO at the time of the BP raid.

A former former Kuwaiti official said he understood that the remaining 9.7 per cent holding in BP had now been transferred out of KPC's special account at the KIO and into the KIO's main portfolio.

However, he said he believed that income from the BP shares was still being transferred to the KPC account.

A large part of KPC's investments managed by the KIO, which eventually totalled $5bn, was hidden in a specially created account, the Number Two account, at a Swiss bank, Lombard Odier. It was managed by the late Mr Trevor Ball, who was the KIO's chief investment manager until he died in 1991.

The Inland Revenue finds itself in a difficult position. It is aware of the evidence that the purchaser of the BP shares was the KPC. However, when giving Kuwait the £458m tax credit in 1988, it received a statement from Kuwait that the shares were directly owned by the state and therefore qualified for tax immunity.

"It is not easy to challenge a statement made by a sovereign", said a UK official, "especially one of our main allies in the Gulf."

Heidelberger

Continued from Page 1

by the deal would guarantee the holding company's future growth. La Générale is placing more emphasis on the financial and services sectors as its main source of profit.

Yesterday, the group announced that this strategy had led to a slight increase in first-half profits, from BFr3.65bn to BFr3.67bn, before exceptional items. Net profits slipped from BFr4.47bn to BFr4.37bn.

In 1992, CBR achieved consolidated net profits of BFr3.1bn on sales of BFr47bn, and has just announced first-half profits down 13.4 per cent on the equivalent period. Heidelberger recorded after-tax profits of DM122m in 1992 on turnover of DM3bn.

FT WORLD WEATHER

Europe today

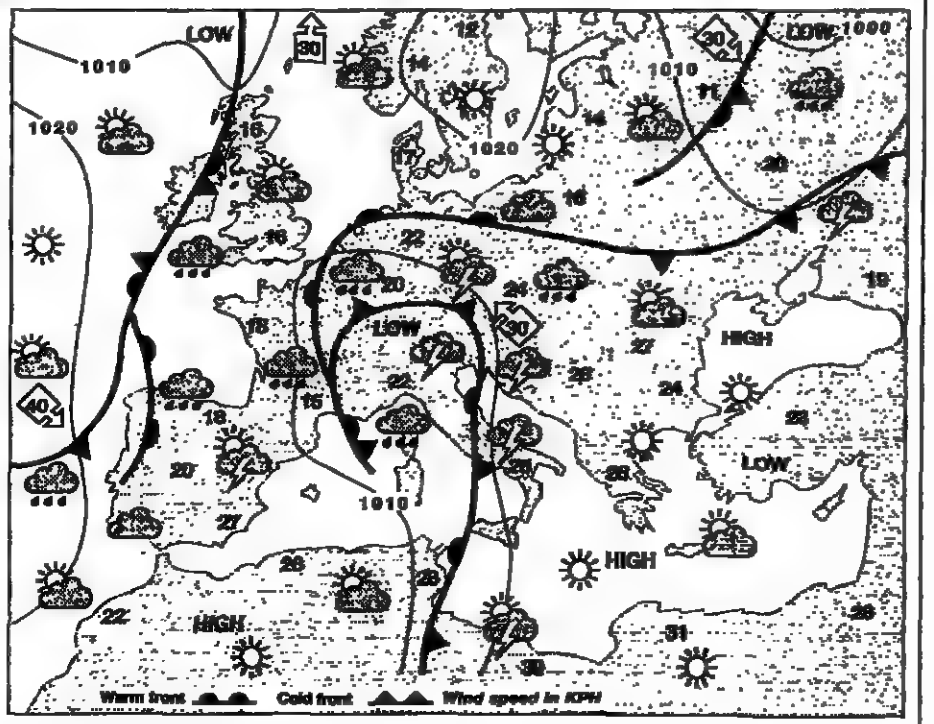
A depression over the Alps and southern Germany will push warm air over central Europe towards the west, causing widespread rain over the Benelux countries and France. Numerous thundery showers are likely to develop over the Alps as well as northern and central Italy.

On the eastern side of the depression, high temperatures will persist with readings of over 30C possible over the Balkan countries. The UK will have a rather cloudy day, with rain approaching slowly from both the west and the east. Scandinavia will be mainly dry with sunshine at times. Isolated showers of rain or snow are possible over northern Finland and the north-western CIS.

Five-day forecast

It will continue unsettled over large parts of central Europe. The heaviest rain will spread towards Germany and southern Scandinavia during the weekend.

Warm conditions over south-eastern Europe will gradually disappear, with Spain and Portugal having more sun and higher temperatures. The UK will be only slightly unsettled at first, but more rain can be expected by early next week when new frontal systems approach from the west.



Situation at 12 GMT. Temperatures maximum for day. Forecasts by Meteo Consult of the Netherlands

TODAY'S TEMPERATURES

		Maximum Celsius
Abu Dhabi	sun	40
Accra	shower	32
Algiers	fair	26
Amsterdam	rain	14
Athens	sun	27
B. Aires	cloudy	13
B.ham	fair	16
Bangkok	thund	33
Barcelona	shower	21
Beijing	sun	26
Belfast	rain	14
Belgrade	sun	28
Berlin	fair	21
Bermuda	fair	31
Bogota	fair	18
Bombay	shower	30
Brussels	rain	16
Budapest	sun	26
C.hagen	fair	18
Cairo	sun	31
Cape Town	fair	19
Caracas	fair	27
Cardiff	cloudy	16
Chicago	sun	22
Cologne	cloudy	21
D' Salaam	fair	31
Dakar	fair	31
Dallas	fair	33
Delhi	fair	34
Dubai	sun	39
Dublin	shower	15
Dubrovnik	sun	26
Edinburgh	rain	16
Faro	sun	24
Frankfurt	fair	23
Geneva	rain	17
Gibraltar	sun	24
Glasgow	rain	15
Hamburg	fair	10
Helsinki	fair	11
Hong Kong	shower	31
Honolulu	fair	31
Istanbul	sun	24
Jersey	cloudy	16
Karachi	fair	33
Kuwait	sun	42
L. Angeles	fair	25
Las Palmas	fair	26
Lima	cloudy	19
Lisbon	fair	22
London	cloudy	16
Lux.bourg	cloudy	19
Lyon	thund	18
Madeira	fair	24
Madrid	fair	20
Majorca	fair	22
Malta	fair	27
Manchester	cloudy	16
Manila	fair	33
Melbourne	cloudy	14
Mexico City	fair	18
Miami	fair	32
Milan	rain	21
Montreal	fair	18
Moscow	shower	11
Munich	fair	24
Nairobi	thund	29
Naples	thund	27
Nassau	fair	31
New York	sun	22
Nice	thund	22
Nicosia	fair	26
Oslo	fair	15
Paris	rain	16
Perth	shower	17
Prague	fair	23
Rangoon	cloudy	30
Reykjavik	shower	8
Rio	cloudy	24
Riyadh	sun	40
Rome	thund	28
S. Frsco	fair	23
Seoul	fair	28
Singapore	fair	30
Stockholm	fair	12
Strasbourg	rain	22
Sydney	fair	18
Tangier	fair	22
Tel Aviv	sun	30
Tokyo	shower	20
Toronto	sun	20
Tunis	fair	28
Vancouver	fair	18
Venice	shower	23
Vienna	sun	25
Warsaw	fair	19
Washington	fair	22
Wellington	shower	10
Winnipeg	cloudy	18
Zurich	thund	21

هكذا من الأصل

FINANCIAL TIMES SURVEY

VENTURE AND DEVELOPMENT CAPITAL

Friday September 24 1993

Poor returns are prompting radical reforms in the venture capital industry, reports **Charles Batchelor.** The accepted practices by which the industry has lived for the past decade are now being challenged by its increasingly critical investors

A rethink on performance measures

SMALLER companies that receive backing from venture and development capitalists seem to be emerging from the recession more rapidly than their larger counterparts. Stock market interest in venture backed companies is stronger now than for many years and in recent months a succession of venture funded firms has obtained a listing.

Significant deal flow – attractive propositions worth backing – is yet to appear in this initial stage of recovery, but all the indicators point to an upturn in worthwhile investments. Behind the scenes, however, the venture and development capital industry is undergoing an intensive overhaul.

The practices and assumptions by which the industry has lived for the past 10 years are being challenged by its increasingly critical investors.

The changes currently under way include:

- A search for a more rigorous set of valuation guidelines to meet investor concern at the leeway venture funds have to fudge performance.
- Work on performance measures which will allow investors to compare the results of the funds in which they are invested and to monitor the performance of their own in-house managers.
- A radical rethink of the methods by which venture managers raise money from investors. Institutions are increasingly unwilling to tie their money to the traditional 10-year venture partnerships. A desperate search for funds by venture capitalists is prompting some innovative new financing structures.

The fundamental reforms now taking place should lead to a more responsive and cost-effective industry by the late 1990s

- Hectic activity in a fast developing secondary market for venture portfolios. This is driven by disillusioned investors seeking to rid themselves of unwanted portfolios and by the need for venture capitalists to increase the sums under management and hence their management fees. If managers are unable to raise new money for their funds they will settle for recycling existing portfolios. Some of these issues have already been faced in the more developed US venture capital market, but they have yet to impact strongly on the venture market in continental Europe. For the moment it is the UK which is leading the way for venture capital throughout the continent.

The British Venture Capital Association (BVCA) drew its first set of valuation guidelines in 1991 to help investors assess the worth of their portfolios.

The guidelines were a valuable first step for assessing portfolio worth, but they still left too much room for subjectivity, says Mr Iain Tulloch, a director of Murray Johnstone and head of the BVCA's valuation committee. A revised set of guidelines is expected to be published in October.

The new guide imposes stricter rules for writing down investments and requires more information for investors. Previously venture capitalists made a provision for "permanent" diminution of value, allowing the unscrupulous to argue that a single poor set of results was not necessarily permanent. Provisions must now be made whether or not the fall in value is permanent.

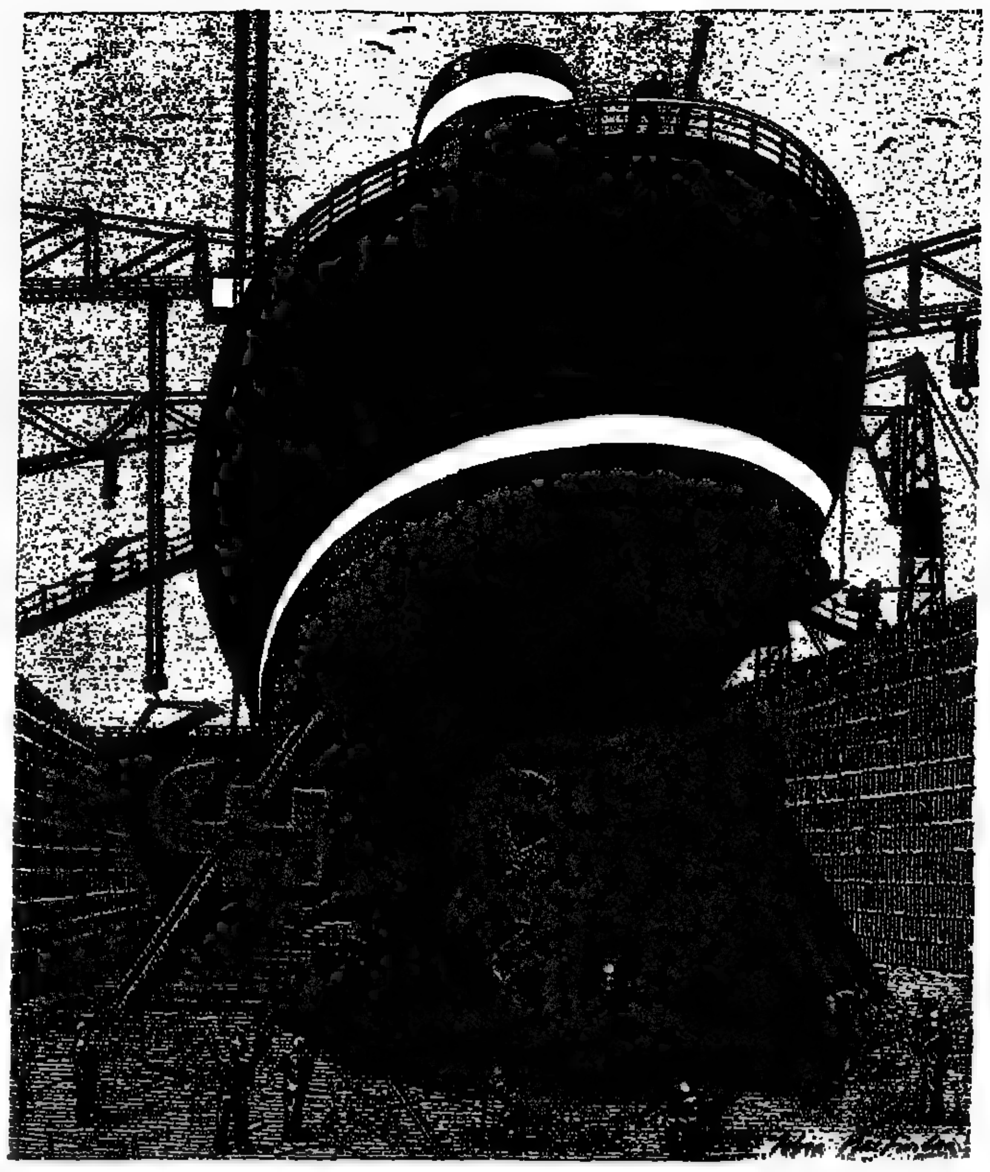
The next step for the venture capital industry is to use these more uniform guidelines to draw a set of performance measures enabling investors to compare different venture funds.

Reference to the thousands of investments made since 1980 is required to devise any meaningful performance measures. The BVCA hopes to publish initial performance data next year.

Performance indicators, when made readily available, will also enable the venture capitalist to attract investors to sound funds. However, in making fund performance more transparent the less successful funds will likely not succeed.

Dissatisfaction with the fund performance has contributed to the sharp drop in new money for the industry.

Independent UK venture funds, which account for about 45 per cent of all activity but act as a bellwether for the industry, raised just £300m in 1992, the third year of decline, according to BVCA figures. The investment picture was more positive with UK funds investing £1.4bn, a 15 per cent rise on the year before. The BVCA remains concerned, however, that the industry may have used up its funds "pool" by the end of the 1990s.



For Europe as a whole, the stronger performance of some continental economies in 1992 led to small increases in funds raised and amounts invested. New fundraising increased by 0.6 per cent to Ecu4.2bn (£3.21bn) while investments rose 1.5 per cent to Ecu4.7bn, according to the European Venture Capital Association.

The UK and European industry remained focused on later stage investments – development capital, buy-outs and buy-ins – while start-ups and early stage details continued in the minority.

Poor fund performance, leading to a more critical investor less inclined to invest new money has forced the industry to become more inventive in its fundraising activity and move away from the typical 10-year limited partnership.

Baronsmead, a medium-sized independent fund has attempted to lure investors with a promise to return committed funds at any time if requested and to give investors a say in the choice of companies backed. Legal & General Ventures, part of Legal & General life assurance group, has unveiled plans for a series of rolling one-year funds which would return uninvested cash at the year end.

Mrs Carol Ames, in charge of unquoted investments for Eagle Star Investment Managers, says: "Arrangements between investors and venture capitalists will be made on more of an individual basis in future."

Venture capitalists have become aware that in introducing new measures to boost funds, the investor's approach to investments is becoming more short term – leading to demands for impossibly early returns. Mr Jonny Maxwell, manager of unquoted investments at Standard Life Assurance, says the growing second hand portfolio and partnership market is changing the shape of the industry.

"Cannibalism is well under way. Almost all the serious players are asking if any portfolios are available. They are looking to poach contracts from other managers," he says.

Venture capitalists are even willing to accept lower management fees or a smaller share in the capital gain to win a portfolio.

One venture firm, Foreign & Colonial Ventures, specialises in acquiring unwanted portfolios and selling off investments. It is currently winding down two portfolios.

"We don't have to apologise for the mistakes that have been made," says Mr James Nelson, managing director.

"If the original manager has paid £10m for an investment now worth only £3m he will be reluctant to sell. We do not have that problem." Winding down portfolios early is encouraged by the reduction in profits over time.

Change in the venture capital industry has been driven by investors' dissatisfaction with fund performance and a growing awareness that they deserve a better deal. The fundamental reforms now taking place should lead to a more responsive and cost-effective industry by the late 1990s.

But change will not take place without casualties. Fund managers who can adapt quickly might survive – for some it may already be too late.

Venturer of the Year award: Michael Peegram, above, is this year's overall winner. His remarkable story is on pages five and six of this survey, together with details of category winners.

IN THIS SURVEY

VENTURE AND DEVELOPMENT CAPITAL 2

Charles Batchelor fears the shake-out may claim more victims

Weaker players at risk

Regional base: outside of London, Manchester (above) leads the way as regards principal funds based in the regions of Britain. For much of the 1980s, the venture capital industry was based largely in London and the south-east, but in recent years it has achieved a better spread across other regions – see report, page six.

The steady contraction of the UK venture capital industry appears to have slowed over the past 12 months. But the present pause, far from marking the end of the shake-out of weaker players, may be merely the lull before the storm.

There are no signs that UK institutions are more willing to increase their investments in the short term and overseas investors have been almost as reluctant to provide funds. At one stage this year no fewer than 40 UK venture firms were looking to raise new finance.

Some venture capitalists are attempting to attract private individuals as investors in their funds but this can be time consuming and can lead to complicated fund structures.

"The big crunch will come in the next 12 to 24 months when people have been unable to raise more money," says Mr James Nelson, managing director of Foreign & Colonial Ventures.

"Will investors be willing to commit their funds to the smaller teams of venture capitalists for the next few years?"

Mr Nelson does not believe there will be a large contraction in the amount of money available for the industry to invest – though the pool of finance available has already shrunk markedly from the position in the late 1980s. But he does think it will be spread among a smaller number of venture funds.

This gloomy view of prospects for the industry's less successful players is shared by Mr Jonny Maxwell, in charge of unquoted investments for Standard Life Assurance Company.

"There will be a great contraction in the industry with only five or six managers capable of closing a serious fund," he says.

Opinions differ in the venture industry as to who will feature in the big league but among the most frequently mentioned names are CINVen, Charterhouse, Phildrew Ventures, Candover Investments, Morgan Grenfell Development Capital and Schroder Ventures. These all specialise in the larger development capital deals and management buy-outs/buy-ins.

The general industry assumption that the "captive" funds owned by the large banks had a guaranteed future has been somewhat shaken by the decision of one or two of the big banks to withdraw.

TSB Group's decision to sell Hill Samuel Development Capital – its portfolio is being wound down by F&C Ventures – showed venture/development capital was not central to all the banks' activities.

But Mr Ron Hollidge, managing director of Lloyds Development Capital and chairman of the British Venture Capital Association, believes the banks will generally want to continue their development capital activities.

"I don't see the UK clearing banks pulling out," he says.

"They recognise the need for expertise in structuring deals involving equity to help companies recover from the recession." Support for this view comes from the decision of the

For all the pressures of recent years, the UK venture capital industry is remarkably diverse

Royal Bank of Scotland to recruit a former senior 3i executive to head a department aimed at using equity in just this way.

But while the banks may want to continue their involvement in development capital they may not all want to do it in quite the same way as in the past.

Two foreign banks with UK-based venture operations have recently established looser links with their development capital operations.

In July, Citicorp spun off its European venture capital activities into an independent company, CVC Venture Partners, which is fully-owned by the US bank's existing European venture management team. Citicorp will continue to provide funds to CVC Venture Partners but the venture activities will be free of the restrictions of US banking laws.

One advantage of creating independent venture capital operations is that remuneration packages no longer have to fit within the usual banking procedures.

There may be only a handful of very large players left in the venture capital market by the end of the decade but there will also be a place for the niche players. Several long-established venture teams have reputations for backing companies with a technology bias in fields such as healthcare, biotechnology and information technology.

Advent has specialised in medical instruments, diagnostics and software and is raising a life sciences fund.

"We don't back start-ups but we do invest in companies which have a product and which need to break into more than one country at once," says Sir David Cooksey, chairman.

These specialist players are sometimes introduced to deals by the larger venture groups which lack expertise in that particular area. But sometimes the larger players establish more permanent relationships to make these specialised investments.

Trinity Capital is one, making investments in the healthcare, environmental and information technology fields for its three backers, 3i, Charterhouse and Alex. Brown, a US investment bank.

For much of the 1980s the venture capital industry was based largely in London and the south-east but in recent years it has achieved a better spread across other regions.

This shift towards making more investments in the regions is expected to continue over the next few years, according to a recent review by accountants Arthur Andersen.

Midland Bank has contributed to this greater regional diversity with the launch of a series of regional funds. Midland planned to launch 11 funds with a total of £55m to invest, most of it raised from local investors.

After a slow start, because of the problem of finding backers in the depths of the recession, this regional network is now coming together.

These developments have challenged the once dominant position of 3i, Britain's largest venture capital company, in the regions though 3i still has a more extensive network of offices than any of its rivals.

The past year has not been happy for 3i. It went through a painful slimming process to counter the recession and to prepare for a stock market flotation but the listing plans were postponed indefinitely in April. As a result 3i's chairman left.

Despite these setbacks 3i says it has sufficient resources to finance a revival of UK business at the end of the recession. At the same time it is looking to raise outside funds, for the first time, to finance an expansion of its continental European activities.

For all the pressures of the past three years, the UK venture capital industry still retains a remarkable diversity. The casualties of any further retrenchment will be those funds which have either failed to establish a good performance record or a strong profile.

■ INVESTORS' VIEWPOINT

Pressures rise for a rethink as returns fail to satisfy

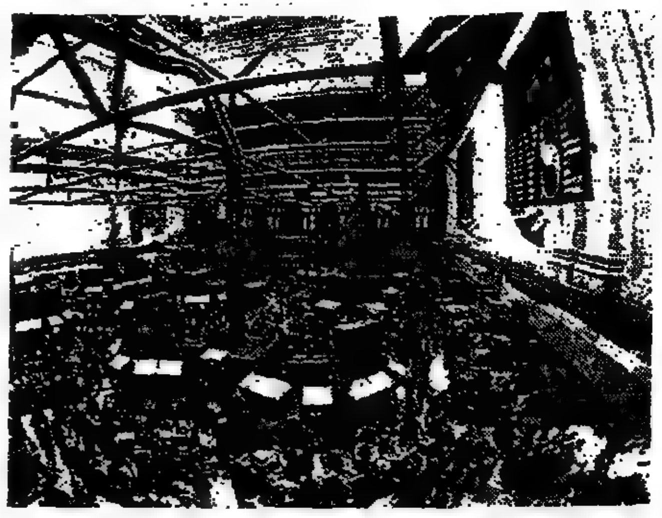
INVESTORS in venture capital have put increasing pressure on fund managers over the past few years to deliver better value for money. The pension funds, insurance companies and "gatekeepers" have sought performance "hurdles" before the managers take their profit and a lowering of management fees.

In many instances the venture capitalists have responded to these requests while the industry has also begun working on a system of valuation and performance measures. But, if the venture capitalists thought that this would be enough to satisfy their critics they may be sadly disappointed.

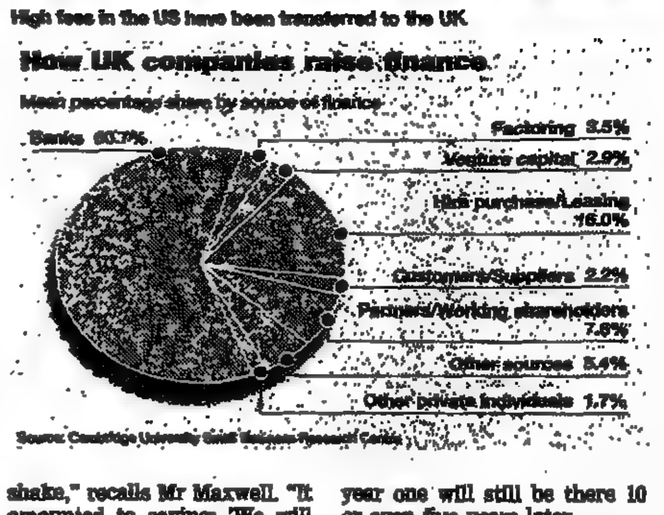
There is every sign that investors are still not happy with the returns on their money. They are pushing for an even more fundamental rethink of the way the industry is structured. It will take more than the ending of the UK recession to persuade the institutions to devote more funds to venture capital.

"What has changed is the way we look at venture capital funds," says Mrs Carol Ames, director of Eagle Star Investment Managers.

"The high fees of the US venture capital industry were transferred to the UK without taking account of the fact that the US has a larger economy, a bigger venture capital market and more of a focus on start-ups."



High fees in the US have been transferred to the UK



The generous management fees – typically 2 to 2½ per cent of funds invested – meant there was less of an incentive for UK venture managers to maximise the value of their investments and earn their 20 per cent share of profits or "carry" by selling or floating their portfolio companies, comments Mrs Ames.

At the same time, as funds grew larger, the management fees came to represent substantial sums of money. Investors have put on pressure for management fees to taper off as the funds get larger. Above £200m managers might only earn 1-1¼ to 1-1½ per cent in fees. "There is less ignorance now about economies of scale," says Mr Jonny Maxwell, in charge of unquoted investments at Standard Life Assurance.

Institutions were sometimes so naive in the early days of venture capital that they are now reluctant to re-examine the terms of those early deals because of the embarrassment it would cause.

"Deals were done on a hand shake," recalls Mr Maxwell. "It amounted to saying: 'We will send you vast amounts of money for a big fee and you will do your best to get a venture capital return.'"

Investors have now become more sophisticated in structuring deals, as is evidenced by the innovative arrangements being proposed by certain funds. Baronsmead will allow investors to withdraw their funds at short notice and have a say in the companies in which it invests, while Legal & General Ventures has announced plans for a series of rolling funds which return uninvested amounts to the institutions at the end of the year.

MANY investors are unhappy with the traditional 10-year partnerships which have become the norm in the UK. They tie up the investors' money for a long period and give the institution little opportunity to influence investment policy or withdraw if things go wrong. The investor has no guarantee that the managers he backs in year one will still be there 10 or even five years later.

"Institutions want to be able to change their asset allocation more easily so they can time their own cash flows," says Mrs Ames. "They want a structure which allows them to commit their funds for less than 10 years and would like a choice of investments too."

But opinion is divided over the question of 10-year funds. There are some signs of a shift away from the partnership structure towards venture capital companies which would have an unlimited life. This might have the virtue of freeing the venture capitalists from the unnatural constraints of a 10-year deadline but, in the view of some investors, would remove any pressure on the fund managers to realise their investments.

"The 10-year deadline does impose a discipline otherwise managers would just sit on their investments drawing their fees," comments Mr Rhoddy Swire, managing director of Pantheon Holdings, which invests in venture funds for its institutional clients.

The institutions are not only determined that future investments should be made on a more equitable basis. They are keen for existing investments to be more accurately valued. To this end the British Venture Capital Association (BVCA) introduced a set of valuation guidelines at the beginning of 1991. Welcome though the guidelines were they have not dispelled the unease of investors and have recently been revised to make them more effective.

"A rule is only as good as its implementation," says Mr Swire, who is concerned that venture capitalists might be distracted from their main business by the need to devote time to the issue of valuations.

"I would rather people stuck precisely to what they say is the basis of their valuations," he says. He does not accept at face a value claims that a fund conforms to the BVCA guidelines.

Mrs Ames shares this scepticism. "People sometimes claim they meet the guidelines when they don't and they always have good reasons for not meeting the rules," she says. "The guidelines need to be more precise and there needs to be some enforcement. I think the venture industry is becoming aware of this and it will slowly get better."

At the moment though, when fund-raising is so difficult and venture capitalists are under extreme pressure to make their investment returns look good, absolute honesty can penalise a fund when others are less scrupulous.

A frequent complaint which the venture capital industry makes against the institutions is that they seek to impose short-term performance measures on an industry which is long-term in its investments. "Your returns drop after you have made heavy investments," says Mr Robin Hall, managing director of CINVen, which manages funds for the pension funds of British Coal, British Rail and Barclays Bank. "It is either feast or famine."

Enlightened investors are ready to acknowledge the constraints under which venture fund managers have to work. But it looks as though it will be some time before the industry has regained investors' confidence sufficiently to justify them committing substantial new funds to the sector.

Charles Batchelor

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The switch to later-stage investments

Start-up prospects remain uncertain

MOST UK venture capitalists have lost money helping businesses to get started and backing them in the early stages. Neither the "portfolio" approach, scattering money across a broad spread of new businesses in the hope that some will succeed, nor more selective investments have paid off.

The result has been that in both the UK and continental Europe the venture capital industry has progressively withdrawn from backing start-ups and switched to later-stage investments. Backing new businesses is no less time-consuming than backing established ones but the risks are much greater and the time taken to generate profits much longer.

Nor has it proved possible to finance the odd start-up deal among an otherwise later-stage portfolio. Dealing with start-ups is so different from providing large amounts of development capital or funding management buy-outs that many venture capital groups have abandoned early-stage deals altogether.

In the UK, early-stage investments accounted for 17 per cent of deals by number and seven per cent by value in 1992. In Europe as a whole, the picture was similar: early-stage investments were 15 per cent of deals by number and six per cent by value.

In Britain, companies such as JMI and Oxford Seedcorn Ventures, specialists at the early stage end of investing, pulled out while even 3i, the largest supporter of early-stage investments, has also sharply reduced its activity.

In the late 1980s, 3i was regularly backing more than 250 start-ups a year, peaking at just over 300 in 1990. These numbers have since been reduced sharply and in 1992 it backed only 58 "management start-ups." They accounted for just £15m out of total new investments of £310m although start-up investments are almost invariably smaller than later stage deals.

"It is often a problem to find other people willing to back a start-up," says John Platt, a 3i director. "It took us 18 months to put one deal together."

The nature of start-ups which win venture backing has also changed over the years. Enthusiastic inventors with a good idea have fallen out of favour and start-ups tend to be led by experienced managers.

"We don't back 'black box' start-ups," says Mr James Nelson, managing director of Foreign & Colonial Ventures. "Generally we wouldn't back someone with a product which was not selling. We would support managers with a good idea and some acquisitions already identified."

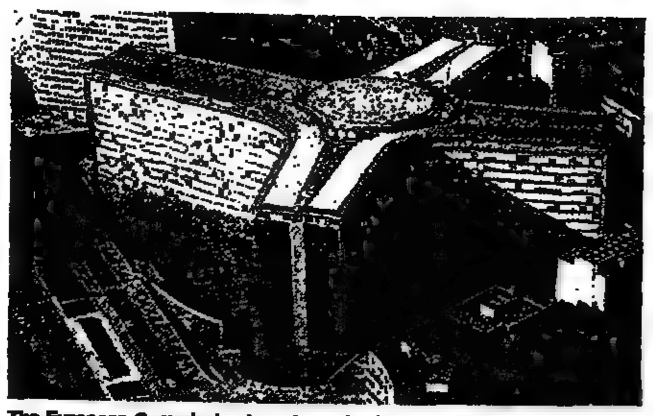
There have been several deals in the hotels and pubs sector where experienced managers have obtained venture backing for the purchase of properties from the large hotel chains or brewers. Such transactions have more of the flavour of acquisition finance than start-ups as envisaged in the early days of venture capital.

Start-up has also come to mean the extension of a formula, successful in one country, into another country.

In one recent deal Apax Partners backed a "start-up," Xpedite Systems, a York-based company providing sophisticated fax systems, with £3m. But while Xpedite was a new company in the UK the British deal followed an $8m dollar investment in Xpedite's US "sister" company by Apax's US office.

The picture for the more traditional start-up is not unrelievedly gloomy however. In the technology field start-ups continue to be financed by specialist funds. "We back start-ups in the environmental area and will do early-stage deals in the health care sector," says Mr John Walker, senior partner of Trinity Capital Partners. "But you have to have a portfolio mix which keeps your investors happy."

A notable exception to the venture sector's inexorable move upscale has been the cluster of seed capital funds managed by Lucius Cary, publisher of Venture Capital Report, a monthly newsletter which attempts to match investors with entrepreneurs seeking finance.



The European Commission has shown itself more willing to put money into meeting the overheads of early stage funds.

The nature of start-ups which win venture backing has changed over the years. Enthusiastic inventors with a good idea have fallen out of favour

Mr Cary, a dogged supporter of the start-up sector, is raising his fifth fund, Seed Investments IV, with a target size of £2m. This would be his largest fund yet – the largest previously was £650,000. Two pension funds have already promised to provide £1m towards the total.

The previous three Seed Investments funds were backed by Apax Partners. But Mr Cary said they would not be contributing to the latest fund because of the problem of incorporating very small investments into their larger scale activities in mainstream venture capital.

The fifth fund will be large enough to allow follow up investments of up to £200,000 if the initial £50,000 investment shows the business has a future. Mr Cary says his previous funds have been successful because he has concentrated on a specific type of investment.

He backs innovative entrepreneurs who have an idea or product involving technology. Typically the first stage of investment will finance the development of a prototype. The business must be based within easy reach of Seed Investments' offices in Henley on Thames.

In the view of many venture capitalists, early-stage financings require a degree of government support to become worthwhile. Attempts to persuade the British government to put money directly into meeting the overheads of early-stage funds have proved unsuccessful however.

The European Commission has shown itself more willing to put public money into backing this sector. Over the past four years the commission has sponsored the creation of 23 seed capital funds in Europe. These funds, with 18 established funds which have also joined the project, make up the European Seed Capital Fund Network.

At the beginning of 1993 the network calculated that it had helped to create 126 businesses and more than 1,200 jobs. The 41 funds involved had a total of Ecu265m under management.

The commission estimates that even if 30 per cent of the funds advanced have to be written off, the costs in terms of creating businesses and jobs will have been worthwhile.

More recently, a review of the network carried out for the commission found that unless more money was provided the seed funds would run out of cash before their investments started to produce a return. Many of the funds were too small to be viable in the longer term, the report concluded.

Prospects for the start-up sector remain uncertain. Early, exaggerated expectations of the venture capital industry's ability to finance them have been abandoned. Bank loans and the entrepreneur's own savings seems set to remain the main sources of finance.

Charles Batchelor

Listings have returned to favour

Stock market rediscovers venture-backed companies

VENTURE capitalists can hardly believe their good fortune. After a long period of famine, stock market investors have rediscovered an interest in venture-backed companies. Most of the companies that obtained a listing on the London stock exchange in the first six months of 1993 had been funded by the venture capital industry.

Paradoxically, this upsurge of activity occurred when the stock exchange appeared to be signalling less interest in the smaller company. The stock exchange is thinking of closing the unlisted securities market, intended to cater for the younger company.

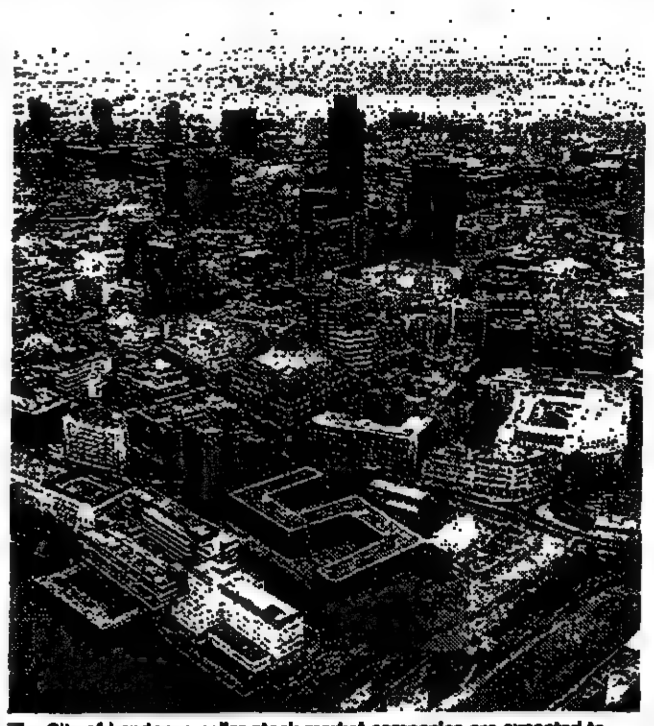
European Community legislation had led to the main market becoming more accessible to smaller companies and the USM had fallen out of favour with market makers and companies alike. But its closure, many felt, might force some would-be entrants to delay a listing. Venture capitalists and other City interests are still trying to devise an alternative mechanism for helping smaller companies to market.

The maturing of the venture capital industry which has also meant that many 10-year funds are approaching the end of their natural lives. There is now pressure on many venture capitalists to realise their investments and dispose of the rumps of their portfolios.

Listings have returned to favour after a long period when trade sales dominated the "exit" scene. Larger companies seeking to expand into a new market niche or add on a complementary product line could usually offer more than a company could raise by flotation.

This situation has been reversed in recent months. At the end of a recession, trade buyers are thinner on the ground and the stock market has offered attractive prices.

"Smaller stock market companies are expected to show above-average growth over the next few years," says Mr Ron Hollidge, managing director of Lloyds Development Capital.



The City of London: smaller stock market companies are expected to show above-average growth over the next few years

"The picture for exits has dramatically improved. There has been a strong reversal of the exit pattern in favour of floats."

CINVen, which invests on behalf of the pension funds of British Coal, British Rail and Barclays Bank, completed six sizeable flotations in the first six months of the year compared with only two trade sales.

Field Group, a packaging company, was capitalised at £148m when it floated in June, with CINVen's original £20m investment tripling in just two years. RPC Group, another packaging concern, delivered a five-fold increase in CINVen's original £8m investment, also in just two years.

NatWest Ventures, for its part, managed to float five of its portfolio companies in the first half of 1993, including Holliday Chemical Holdings, a dyestuffs manufacturer valued at £161m, and Carpetright, a retail chain headed by Sir Phil Harris, valued at £113m.

A feature of these flotations was the size of the companies involved. Investors are now prepared to wait before taking a company to market after a bad experience with some of the smaller flotations of the late 1980s. The listing boom also reflects the coming of age of buy-outs staged in the late 1980s/early 1990s. All but one of CINVen's listings were originally buy-outs, as was the case with NatWest Ventures.

AN important attraction of a float is that these companies have been able to achieve very high price/earnings ratios, typically around 17 or 18.

Expectations that smaller companies will outperform large ones have meant that investors have been keen to get such companies on to their books. The attraction to the managements of the companies themselves is that they can retain their independence, often lost in a trade sale, and share in the continued growth of their businesses.

Despite its plans to close the USM, the stock exchange has at the same time made it easier for very small science-based companies to come to market. These companies must already have an outside investor and must use the listing to raise additional finance. They must also have a reasonable prospect of making money for investors.

This has led to a raft of small bio-technology companies obtaining a listing. Founding shareholders are not allowed to sell their shares for the first two years but they do have the benefit of an independent valuation of their business.

Welcome though this development is to both entrepreneurs and their venture capital backers, some observers have concerns about the experiment. "The stock exchange made a good move by letting in these small companies but there is a lack of good quality technical commentary and analysis," says Mr John Walker, senior partner of Trinity Capital Partners, which makes technology investments for Charterhouse, Alex Brown & Sons and 3i.

Mr Walker points to the problem of putting a valuation on some of the smaller technology companies where their main asset is the value of their research.

Efforts to make the London stock exchange more accessible to the sort of company backed by venture capital cannot disguise the difficulties young companies encounter on a public stock market.

Not only USM companies but many of the smaller companies on the main board in London experienced investor neglect once they were listed. Few analysts have been prepared to follow the smaller stocks and there has been little liquidity in their shares. The clutch of new arrivals who have gone to market in recent months will be hoping that they do not suffer the same fate.

Charles Batchelor

Private investors can plug a persistent equity gap in small businesses

On the side of the angels

A GIANT game of hide and seek, with everyone blindfold – that is how one expert describes the fitful courtship by small businesses of business angels, the private investors sometimes prepared to invest equity capital in small businesses.

This is a problem, because the wealthy private investors ("angels" is a generic name borrowed from the Broadway slang for individuals interested in backing promising show business in the US) could otherwise usefully plug a persistent equity gap – the one that affects small businesses struggling to attract smaller sums of capital.

This gap was first identified more than 60 years ago. It exists partly because venture capitalists are generally not interested in investing less than £250,000. They know it is cheaper to invest £1m as a lump sum, rather than splitting the money into four different investment decisions and quadrupling research costs.

Mr Colin Mason, senior lecturer in economic geography at Southampton University and student of the activities of business angels in the UK, says: "It is a problem for businesses which have exhausted their sources of finance but are in too small a league to go to venture capitalists."

Small wonder that people running small businesses are prone to visions of wealthy private individuals appearing with wads of cash and common sense, to perform miracles with their companies. The grander vision is that of hosts (syndicates) of angels with bigger wads, led by an archangel.

A RECENT study by Mr Mason and his colleague at the Ulster Business School, Professor Richard Harrison, found that the kind of people who become angels range from big company managers who have retired with golden handshakes, to small businessmen who have sold out but are looking around for a second business to help build up.

Most are well-off but not millionaires. The average income of the 86 angels surveyed was just under £50,000. Almost 45 per cent earned between £25,000 and £49,000; 16 per cent earned £100,000 or more.

Small businesses know that angels are out there. They account for a sizeable amount of small business investment in the US and their presence is increasingly felt in the UK.

The trouble is they do not like to advertise. As Mr Mason says: "They want anonymity. No one with a spare million quid is going to advertise the fact. They'd be inundated."

For most business angels, investing in a small business is a spare time activity. Researching those investments is time consuming, so most potential angels rely on friends or informal contacts to find opportunities.

What is needed, says Mr Mason, is "a lonely hearts dating agency which will bring small businesses and business angels together."

In the private sector, this has been tried. It has failed to make money for the operators. The economics simply do not stack up; the costs of marketing, research and guidance always outweigh the income from introductions. Mr Mason says: "There is a need for somebody to underwrite the costs."

Awareness of the problem is now widespread. Solutions are being piloted in both the public and private sector, forming part of various plans to help small businesses.

The UK department of employment made its move in October 1991, as part of "a seven-point plan to help small firms and enterprise."

Mr Michael Howard, the then employment secretary, announced a programme to support "business introductions."

At the time he described it as "a measure to tackle the difficulties which some small firms find in arranging investment capital." It involved "a programme under which local Training and Enterprise Councils and a network of other organisations will work as 'marriage brokers' bringing together investors with money and small firms with potential."

Following a competition, projects were established in Bedfordshire, Calderdale and Kirklees, Devon and Cornwall, East Lancashire and south and east Cheshire. Mr Howard added: "This will encourage the growth in this country of informal investment, which is widespread and highly successful in the United States."

IN the US, angels are eager to fund fast-growing companies. Local lawyers and accountants act as introduction agents – some estimates suggest that angels are now the biggest single source of investment capital in the country. Many belong to private clubs, of which some have offshoot angel chapters in cities across the US. As in the UK, club members tend to be former or current executives looking for money-spinning opportunities.

In the UK, Mr Howard's move is consistent with the thrust of current small business policy, which is to encourage partnerships between large and small businesses, between business support networks (TECS, Enterprise Agencies, Chambers of Commerce) and small firms, as well as between academic institutions and firms.

This follows the trend away from grant funding for small business development; for example, the government's Loan Guarantee Scheme is under government review and looks likely to be phased out.

Moreover, following an announcement in the March 1992 Budget, the Business Expansion Scheme (which provides tax incentives to investors in small businesses) will be terminated at the end of 1993. This is sure to please Mr Howard Davies, director-general of Britain's Confederation of British Industry (CBI), the employers' organisation.

Earlier this year he criticised the BES for acting as a "middle-class tax shelter". As part of a six-point plan for small business finance he called for a replacement to the BES which would apply only to investment in a new type of local investment company, through which small business angels could take stakes in targeted ventures.

This summer National Westminster bank (NatWest) launched a feasibility study to see if a national database of angels could be set up. The bank is carrying out a pilot study in the north-west of England and the Thames valley, examining how much time and money investors would be prepared to commit to small firms.

A recent survey by staff at the Ulster Business School, who also have their own six-point plan for spotting angels, found that business angels are "hands-on investors".

Angels want to protect their investment, but they are also looking for a "buzz factor". This means that a small business can benefit from the experience and skills of its backer, but it may also have to tolerate a certain amount of bossing about.

Catherine Milton

VENTURE AND DEVELOPMENT CAPITAL 4

■ BUZZWORDS EXPLAINED

Hands-on angels pick out the plums

THE VENTURE capital industry, like most others, has its jargon and its technical terms which can confuse the outsider. In recent years, however, the venturer's vocabulary has become more staid as the industry itself has matured and now it increasingly reflects the world of corporate finance.

Some of the more colourful expressions which crossed the Atlantic along with the techniques themselves in the 1970s have fallen out of use but a flavour of venture capital's pioneering days remains.

Burn rate: the rate at which a business uses up the funds provided.

Business angel: private investor who not only finances small companies but also gives them the benefit of his or her own expertise. Most angels are retired executives or entrepreneurs who have sold their own business.

Business Expansion Scheme: a scheme to encourage investors to engage in risk investment by offering them tax relief at their top marginal rate, for up to £40,000 invested a year. There is now a £750,000 annual investment limit for each investee company to channel investment to smaller businesses. But recent cuts in tax rates have reduced the attractions of the BES for investors, while special encouragement for investments in residential property have diverted funds away from non-property ventures. The Treasury's long-running dislike of the scheme finally carried the day in the March 1992 budget and the BES will come to an end in December 1993.

Business plan: the document put together by managers to justify their application to financiers for backing. This should contain summaries of past and projected profit and loss accounts, balance sheets and cash flows. Also details of products and services, markets, future strategy and profiles of the managers. Don't get too carried away though. Most financiers will not go beyond the two-page executive summary.

Captive funds: venture capital organisations which form part of larger financial services groups. Usually they do not raise their own discrete funds but draw on the resources of their parent groups.

Carried interest: shares or an option on shares taken by the venture capitalist in the investee company as part of the financing agreement. Usually the stake taken is 20 per cent. See also Hurdles.

Corporate venturing: the practice of a large company taking a small equity stake or establishing a joint venture with a smaller business to benefit from the smaller firm's specialist expertise. The large firm can provide finance, management back-up and distribution outlets which would not be available to the smaller partner.

The small company brings its innovative skills and allows the big company a ringside view of the new products and technologies it is developing. Corporate venturing links can lead to the bigger partner acquiring the smaller. Many US and some Continental companies have practised this technique though it has failed to appeal to large British companies.

Deal Flow: the number of investment propositions which come to the venture capitalist.

Development Capital: later stage venture capital invested after two or three years when the business has become established and needs extra funds for expansion. Most venture capitalists are in fact providing development capital. The rewards are lower but the risks are correspondingly less than for early stage investments.

Exit: the point at which the venture capitalist realises all or part of his investment by either arranging a flotation of the company or, more commonly, selling it to another company or trade buyer. A growing range of exits is becoming available and the list also includes a refinancing of the company by another group of venture capitalists or the purchase of all the shares by the company's own management.

Hands on/hands off: some venture capitalists take a very close interest in their investee companies and will provide management expertise to help them get started and in times of difficulty. It is rare to find a venture capitalists who does not claim to be hands on but many, in moments of honesty, will admit to being hands off or passive investors.

Hurdle rates: institutional investors have grown restive at the fees venture capitalists earn and have started to insist that funds achieve a basic return before managers can claim their carried interest. They often set hurdles based on a return on gilts or one of the leading stock market indexes.

Independent funds: these do not form part of larger financial groups. They raise their money from institutional and other investors.

Internal rate of return (IRR): different people calculate this in different ways but it basically means the compound annual rate of return to the investor. It includes dividend distributions and profits from disposals or the profits shown on a fair valuation of an investee company. Inevitably venture capitalists differ over when investments should be written down, up or off so the figures are rarely strictly comparable.

Lemons and plums: bad investments invariably go wrong before the good ones produce profits. The lemons usually ripen before the plums.

Living dead: a portfolio company which is just about trading profitably but which shows little sign of ever meeting the venture capitalist's early high expectations.

Management buy-in: the purchase of a business by an outside manager or team of managers with the help of a group of financial backers.

Management buy-out: the purchase of a business by its existing management with the help of a group of financial backers. Buy-outs are funded largely by loans secured on the assets of the company itself. Most of the equity comes from the venture capitalist or other financial backer. The management puts up a small amount of finance for a disproportionately large percentage of the equity.

Management fee: this is an annual charge normally amounting to 2½ per cent of the sum invested. Some investors have insisted that the larger funds making later stage investments should charge less because their portfolio companies are less time-consuming. Others argue the management fee should decline as a fund matures and fewer new investments are being made.

Recovery or turnaround financing: supplied to companies in difficulties where the venture capitalist sees an opportunity to beef up or change the management and return the company to profits. Some venture capitalists have employed insolvency specialists to identify and manage such investments.

Refinancing: can be a sign of either failure or success. If a company performs poorly it may need an extra injection of funds. Equally, if it does very well, the management may decide to refinance the business on terms more favourable to themselves with their original venture capital backers or sometimes a new team of financiers.

Replacement capital: funds provided to allow an existing shareholder to sell some or all of his shares.

Second-round financing: venture capitalists rarely expect the first injection of funds to meet a business's needs. A second or even a third round of

CHARLES BATCHELOR explains some of the jargon and of the venture capital industry

Continued on facing page

■ LEADING VENTURE FUNDS IN UK

Company	Min	Max	Start Ups	Development	Replacement	MBO/MBI	Telephone	Sector preference	Availability of funds
3i plc	0	Open	Y	Y	Y	Y	071 928 3131	O	U
Abacus Development Capital Limited	100,000	750,000	N	Y	Y	Y	071 835 4160	H	-
Abbott Business Consultants Limited	250,000	500,000	N	Y	Y	Y	051 227 2030	I, H, M, R, (F), (O), (N), (Q)	-
Abingworth Management Ltd	250,000	2,000,000	Y	Y	Y	Y	071 839 6745	B, D, E, F	S
Abtrust Fund Managers Limited	100,000	1,000,000	P	Y	Y	Y	0224 631999	O, (B), (K)	F
Acumen Investments Ltd	250,000	5,000,000	Y	Y	Y	Y	071 465 0316	I, H, M	-
Advent International PLC	1,000,000	15,000,000	N	Y	Y	Y	071 333 0800	O	-
Advent Limited	250,000	2,500,000	P	Y	Y	Y	071 630 9811	A, B, C, D, E, R, I, L, R, (N)	S
AIB Venture Capital	IR£50,000	IR£4,000,000	N	Y	Y	Y	071 308 5800	B, E, F, I, M	-
Alta Berkeley Associates	250,000	1,500,000	Y	Y	Y	Y	071 734 4884	A, B, D, E, Q	-
Apax Partners & Co	500,000	100,000,000	Y	Y	Y	Y	071 872 6300	A, O, D, M, H, E, I, C, B, R, L, K, N, F, G	S
Arab International Trust Co. Limited	100,000	2,000,000	N	N	Y	Y	071 434 4141	C, F, I, K, L, N	F
BancBoston Capital	500,000	7,000,000	N	Y	Y	Y	071 932 9261	O	U
Bankers Trust	500,000	Open	P	Y	Y	Y	071 982 2500	O	-
Barclays Development Capital Limited	200,000	Open	N	Y	Y	Y	071 407 2389	H, I, K, M, R	U
Barclays Venture Capital Unit	100,000	750,000	N	Y	Y	Y	071 242 4900	O	S
Baring Capital Investors Limited	3,000,000	Open	N	Y	Y	Y	071 498 1282	O	S
Baring Venture Partners Limited	0	1,500,000	Y	Y	P	P	071 408 0555	O, (N)	-
[illegible] PLC	150,000	2,600,000	N	Y	Y	Y	071 242 4900	O, (N)	U
Biotechnology Investments Limited	25,000	3,242,000	Y	Y	N	N	071 256 5000	O, E, G	U
British Linen Bank	250,000	1,000,000	Y	Y	Y	Y	031 243 8323	I, M, H, L, E, R, N, F, G, A, B, C, O, K, D	S
British Steel (Industry) Limited	10,000	150,000	N	Y	Y	Y	0742 731612	D, E, H, L	S
Brown Shipley Venture Managers Limited	1,000,000	5,000,000	N	Y	Y	Y	071 606 6556	O	S
Candover Investments PLC	2,000,000	Open	N	Y	P	Y	071 489 9848	O, (O), (F), (G)	S
Capital for Companies	200,000	500,000	N	Y	Y	Y	0532 438043	A, H, I, M	F
Capital Partners International	5,000	Open	N	Y	Y	Y	071 378 7992	B, D, E, H, I, K	S
Causeway Capital Limited	1,000,000	5,000,000	Y	Y	Y	Y	071 495 2525	O	-
Charterhouse Development Capital	750,000	25,000,000	P	Y	Y	Y	071 248 4000	O, (N)	S
Chase Investment Bank Limited	500,000	10,000,000	N	Y	Y	Y	071 726 5060	O	S
CINVen	500,000	Open	N	Y	Y	Y	071 245 6911	O	U
Close Investment Management Limited	1,000,000	5,000,000	N	Y	Y	Y	071 283 2241	O	U
Clydesdale Bank Equity Limited	250,000	3,000,000	P	Y	Y	Y	041 248 7070	O, (M), (F), (G)	S
CVC Capital Partners	1,000,000	Open	N	Y	Y	Y	071 438 1488	O, (N)	U
Cygnus Venture Partners	200,000	Open	Y	Y	Y	Y	0895 272601	A, B, C, D, E, F, H, P	F
Derbyshire Enterprise Board Limited	50,000	500,000	Y	Y	Y	Y	0246 207390	O, (N)	F
Doncaster Venture Capital plc	10,000	100,000	Y	Y	Y	Y	0302 340320	O, (N), (Q)	-
Dunedin Ventures Limited	250,000	1,500,000	N	Y	Y	Y	031 315 2500	O, (O)	-
Eagle Star Investment Managers Limited	1,000,000	Open	N	Y	Y	Y	071 929 1111	O, (F), (N)	-
ECI Ventures	1,800,000	5,000,000	N	Y	Y	Y	071 606 1000	O, (F), (G), (N)	S
Electra Innvotec Limited	200,000	2,000,000	Y	Y	P	N	071 831 9901	A, B, C, D, E, F, I, K, L, R	S
Electra Kingsway Limited	2,000,000	30,000,000	Y	Y	Y	Y	071 831 6464	E, F, H, I, L, M, P, Q, R	F
Enterprise Equity (NI) Limited	50,000	750,000	Y	Y	N	Y	0232 242500	O	-
Eurocontinental (Advisers) Limited	250,000	2,500,000	P	Y	P	Y	071 600 1688	A, B, D, E, H, I, M	-
Euroventures UK (Octagon)	150,000	750,000	Y	Y	Y	Y	0223 415689	A, B, C, I	F
Finlay Ventures	100,000	500,000	P	Y	Y	Y	041 204 1321	O, (D), (N), (R)	S
Fleming Investments Limited	3,000,000	Open	N	Y	Y	Y	071 638 5362	O, (I), (D), (G), (K), (N)	U
Fleming Ventures Limited	100,000	1,000,000	N	Y	Y	Y	071 480 8211	A, B, C	-
Foreign & Colonial Ventures Limited	750,000	7,500,000	N	Y	Y	Y	071 782 9829	O, (B), (C)	S
Gartmore Venture Capital	300,000	5,000,000	N	Y	Y	Y	071 782 2000	O	-
GLE Development Capital	100,000	1,000,000	Y	Y	Y	Y	071 403 0300	O	S
Granville Development Capital Limited	500,000	5,000,000*	N	Y	Y	Y	071 488 1212	O	S
Great Winchester Capital Fund Managers	250,000	750,000	Y	Y	Y	Y	071 588 7575	H, B, A, E, C, F, I, Q, M, L, R, K, G, N, D	F
Gresham Trust plc	300,000	1,500,000	N	Y	Y	Y	071 606 6474	O, (N)	U
Grosvenor Venture Managers Limited	250,000	2,000,000	N	Y	Y	Y	0753 811812	O, (N)	S
Guinness Mahon Development Capital Limited	250,000	100,000,000	N	Y	Y	Y	071 623 9333	A, C	F
Hambro European Ventures Limited	250,000	Open	P	Y	Y	Y	071 282 3588	O, (B), (Q)	S
Hancock Int. Private Equity Mgt. Ltd	2,000,000	10,000,000	N	Y	Y	Y	071 414 0132	O	S
Henderson Venture Managers	1,000,000	3,000,000	N	Y	Y	Y	071 410 4413	O, (B), (C), (G), (F), (N)	S
Highlands and Islands Enterprise	0	500,000	Y	Y	N	N	0463 234171	O, (N), (N)	-
Hodgson Martin Limited	100,000	1,000,000	P	Y	P	Y	031 226 7644	R	F
Industrial Development Board for N. Ireland	0	Open	Y	P	N	P	0232 233233	I	-
Industrial Technology Securities	150,000	250,000	Y	Y			0753 865524	A, B, C, K, L	-
Ivory and Sime Development Capital	250,000	2,000,000	N	Y	Y	Y	031 225 1357	O	-
Kleinwort Benson Development Capital Ltd	250,000	Open	P	Y	Y	Y	071 956 6600	O	U
Kleinwort Benson Limited									-
Kleinwort Benson Limited	2,500,000	Open	N	Y	Y	Y	071 623 8000		S
Korda & Company Limited	50,000	750,000	Y	N	N	N	071 286 5882	B, C, D, E, L, R	F
Lancashire Enterprises PLC	0	500,000	Y	Y	Y	Y	0772 203020	O	S
Larpent Newton & Co. Ltd	50,000	750,000	Y	Y	Y	N	071 251 9111	A, B, C, D, I	-
Lazard Ventures	300,000	Open	N	Y	Y	Y	071 588 2721	H, O	S
LEDU- Small Business Agency N. Ireland.	3,000	450,000	Y	Y	N	Y	0232 491031	B, C, E, I, H	-
Legal and General Ventures	1,000,000	60,000,000+	N	Y	Y	Y	071 489 1888	O	S
LICA Development Capital Limited	100,000	Open	Y	Y	Y	Y	071 839 7707	O, (N), (P)	-
Lloyds Development Capital Limited	400,000	Open	N	Y	Y	Y	071 600 3226	O, (N)	-
London Wall Industrial Consultants Limited	25,000	100,000	P	Y	P	Y	0923 285199	H, I, M	-
Lothian Enterprises Limited	50,000	250,000	Y	Y	N	Y	031 220 2100	O, (M), (N), (O)	F
March Investment Fund Limited	180,000	1,000,000	N	Y	Y	Y	061 872 3676	O, (O)	S
Mercury Development Capital	2,500,000	30,000,000	P	Y	Y	Y	071 280 2800	E, H, I, Q, O	-
Metrogroup Capital PLC	30,000	250,000	N	Y	Y	Y	071 435 8281	A, H, O	-
Midland Ent. Fnd for Yorkshire & Humberside	5,000	500,000	Y	Y	Y	Y	0532 374774	C, I, L, R, A, B, H	-
Midland Growth Capital	80,000	750,000	N	Y	Y	Y	071 286 6778	P, O, (N)	-
Midlands Venture Fund Managers Ltd	5,000	125,000	Y	Y	Y	Y	0602 678400	O	U
Montagu Private Equity	750,000	Open	P	Y	Y	Y	071 260 9232	O	-
Morgan Grenfell Development Capital Limited	2,000,000	20,000,000	N	Y	Y	Y	031 557 8600	H, I, L, M, F, Q, R, A, E, G, (K), (C), (D), (N), (B)	-
MR Managers Limited	250,000	1,000,000	Y	Y	N	Y	0823 250244	A, B, C, D, E, I, K, L	U
Murray Johnstone Developments	250,000	10,000,000	N	Y	Y	Y	041 226 3131	O	S
Nash, Sells & Partners Limited	500,000	3,000,000	P	Y	Y	Y	071 828 6944	E, H, I, R, O	-
NatWest Ventures Limited	500,000	Open	N	Y	Y	Y	071 626 2444	O, (D), (G)	-
Noble & Co. Limited	50,000	Open	Y	Y	Y	Y	031 225 9677	O	U
Noble Grossart	100,000	3,000,000	Y	Y	Y	Y	031 226 7011	O	-
North of England Ventures Limited	200,000	2,000,000	Y	Y	Y	Y	061 236 6600	O, (N)	-
Northern Ireland Innovation Prog Inv. Ltd	15,000	40,000	Y			N	0232 241619	A, B, C, D, E, I	-
Northern Venture Managers Limited	200,000	Open	Y	Y	Y	Y	091 232 7068	O	S
Palatine Fund	250,000	1,500,000	P	Y	Y	Y	061 834 2332	O, (N), (P)	-
Phildrew Ventures	1,000,000	15,000,000	P	Y	Y	Y	071 628 6366	O, (F), (N)	S
Phoenix Fund Managers Limited	1,000,000	10,000,000	N	Y	Y	Y	071 638 3818	I, L, R, M, H, E, B, A, D, K, G, F, N, Q, B	S
Piper Investment Management	100,000	1,000,000	P	Y	Y	Y	071 727 3895	N	S
Postel Development Capital	1,000,000	5,000,000	N	Y	Y	Y	071 792 0888	O	F
Prelude Technology Investments Limited	20,000	1,000,000	Y	Y	N	N	0223 423132	A, B, C, D, E, I, K, L	-
PRICOA Capital Group	10,000,000	100,000,000	N	N	Y	Y	071 283 8122	O	S
Priory Investments Limited	250,000	1,000,000	N	Y	N	Y	071409 7339	E, I, A, R, O	-
Prudential Venture Managers Limited	1,000,000	25,000,000	P	Y	Y	Y	071 831 7747	O	F
Quayle Munro Limited	500,000	2,000,000	N	Y	Y	Y	031 226 4421	F, H, I, M	U
Quester Capital Management Limited	100,000	1,000,000	Y	Y	Y	Y	071 222 5472	O	-
Rothschild Ventures Limited	250,000	2,500,000	Y	Y	Y	Y	071 280 5000	O, (N)	F
Schroder Ventures	500,000	25,000,000	Y	Y	Y	Y	071 632 1000	A, M, D, E, C, B, H, R, I, K, L, N, Q, F, G	-
Scottish Development Finance Ltd	50,000	2,000,000	Y	Y	N	Y	041 248 2700	B, C, D, E, F, I	S
Seed Capital Limited	5,000	40,000	Y	N	N	Y	0491 579999	G, I	-
South Yorkshire Pensions Authority	100,000	1,000,000	Y	Y	N	N	0226 772881	O, (E), (G), (N)	S
Stewart, Ivory & Co. Limited	1,000,000	2,000,000	P	Y	Y	Y	031 226 3271	O, (G), (N), (Q)	S
SUMIT Equity Ventures Limited	250,000	Open	N	Y	Y	Y	021 236 1222	O	-
Sun Life Investment Mgmt Services Limited	500,000	5,000,000	P	Y	Y	Y	071 606 7788	O	S
Thompson Clive & Partners Limited	500,000	3,000,000	P	Y	Y	Y	071 491 4809	A, B, C, E, I, L, H, D, F, K, M, (G), (N), (N), (B)	-
Top Technology Ltd	50,000	500,000	Y	Y	P	N	071 242 9900	A, B, C, D, E	S
Transatlantic Capital (Bio Sciences) Limited	50,000	500,000	Y	Y	N	N	071.224 1193	D, E	S
Trinity Capital Partners							071 828 8001	B, C, D, E	-
Tufton Associates Ltd	500,000	Open	N	Y	Y	Y	071 222 8151	F, I, M, N	-
UBK Information Technology Partnership	50,000	500,000	Y	Y	P	P	071 626 3422	O	-
Ulster Development Capital Limited	50,000	600,000	N	Y	Y	Y	0232 246765	O	-
Venture Founders Limited	100,000	600,000	N	P	N	P	0895 824015	A, B, D, E, (N)	F
Venture Link Investors	250,000	1,500,000	Y	Y	N	N	0628 771050	A, B, E, D, O, (N), (Q)	-
Welsh Development Agency	5,000	500,000	Y	Y	P	Y	0792 790090	O, (G), (N), (Q)	-
West Midlands Enterprise Board Limited	100,000	750,000	P	Y	P	Y	021 236 8855	I	-
Yorkshire Bank Development Capital Limited	500,000	2,000,000	N	Y	Y	Y	0532 442848	O, (B), (C), (N)	S
Yorkshire Enterprise Limited	5,000	500,000	Y	Y	Y	Y	0532 374774	C, I, L, R, A, B, H, D, K, M, Q	-
Yorkshire Fund Managers Limited	250,000	1,250,000	N	Y	Y	Y	0532 460132	I, M, C, B, R, A, R, T, Q, F, G, E, D, K, N	S
Yorkshire Venture Capital	200,000	500,000	N	Y	Y	Y	0742 722272	O, (N)	S

Key: Y=Yes, P=Possible, N=No. Sector Preferences: A=Communications, B=Computer Related, C=Other Electronic Related, D=Biotechnology, E=Medical, Health, F=Energy, Natural Resources, G=Agriculture, H=Consumer Related Products, I=Industrial Products, K=Space and Aviation Industry, L=Industrial Automation, M=Wholesale, Trade, Distribution, N=Property, O=Anything, P=Financial Services, Q=Media, Entertainment, R=Chemical Industry. Any letter in brackets indicates a preference not to invest in that sector. Sectors ranked in descending order of preference are indicated in bold, otherwise preferred sectors are listed in alphabetical order. Availability of funds (able to make...): U=an unlimited number of investments, S=a significant number of investments, F=a few investments.

Source: KPMG Corporate Finance

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VENTURE AND DEVELOPMENT CAPITAL 5


Michael Peagram: 'a genuine entrepreneur and a fine manager'

■ VENTURER OF THE YEAR: Michael Peagram

A potent mix of skills

REPORT BY TIM DICKSON

HOLLIDAY Chemical Holdings is one of those companies that venture capitalists frequently dream about, but only rarely hold in their portfolios. Very rarely.

The returns to institutional investors which backed Holliday's original buy out in February 1987 have been mouth watering by any standards.

Led by NatWest Ventures - and supported by Citicorp Venture Capital, 3i, Thompson Clive and Apax - they subscribed £3m of capital to what was then at best a small and convalescing specialty chemicals group.

When Holliday came to the stock market earlier this year their money had been turned into a stake worth £58.7m, equivalent to an annual compound rate of return of 73.6 per cent. The shares, floated at 195p, were last week trading at around the 220p mark.

More than most companies of its size – its market capitalisation is now around £185m – today's Holliday is the creation of one man, Michael Peagram.

His achievements have also earned him the distinction of being the fourth overall winner of the Venturer of the Year award, sponsored by the Financial Times, Cartier the jewellers, and the British Venture Capital Association.

Michael Peagram's story is all the more remarkable in that it lacks any visible high technology wizardry or mould-breaking innovative spark.

Holliday's enviable record of sales and earnings per share growth, indeed, has been

Continued on next page together with the full list of this year's category winners

LEADING VENTURE FUNDS IN CONTINENTAL EUROPE

Company	Min	Max	Start Ups	Development	Replacement	MBO/MBI	Telephone	Country	Sector preference	Availability of funds
3i Gesellschaft für Industriebeteiligungen mbH	-	-	N	Y	Y	Y	49 67 100 00-0	GER		
ABN AMRO Participaties B.V.	Nfg 1,000,000	Nfg 10,000,000	P	Y	Y	Y	31 20 628 1276	NE	O	U
Agrinova	FF 1,500,000	FF 7,000,000	Y	Y	Y	N	33 1 43 35 5769	FR	D, H, I	S
Alpinvest Holding NV	Nfg 2,000,000	Nfg 15,000,000	N	Y	Y	Y	31 2159-62600	NE	O	S
Apax Partners & Cie	FF 5,000,000	FF 500,000,000	Y	Y	Y	Y	33 1 45 53 0378	FR	O	S
Apax Partners & Co (Germany) Ltd	Dm 1,000,000	Dm 9,5000,000	Y	Y	Y	Y	49 89 998 9990	GER	H,M,O,A,I,R,D,E,L,F	S
Atlas Venture GmbH	ECU 250,000	ECU 2,000,000	Y	Y	Y	Y	49 89 448 1190	GER	A, B, C, D, E, I	S
Atlas Venture Groep	ECU 400,000	Open	Y	Y	Y	Y	31 20 697 3131	NE	O	S
Atlas Venture sarl	ECU 250,000	ECU 2,000,000	Y	Y	Y	Y	33 1 426 000 56	FR	A, B, C, D, E	S
Baring Capital GmbH	-	-	-	-	-	-	49 40 44 66 60	GER	O	-
Benelux Investment Fund	BEF 100,000,000	BEF 250,000,000	N	Y	P	Y	32 2 511 90 70	BEL	O, (B), (C), (M), (F)	F
Benevent Management NV	BEF 10,000,000	BEF 50,000,000	N	Y	Y	Y	32 2 725 14 40	BEL	O	S
Beteiligungsgesellschaft Aachener Region mbH	DM 500,000	DM 50,000,000	Y	Y	Y	Y	49 241 4766-212	GER	A, C, I, L	U
Beteiligungsgesellschaft für deutsche Wirtschaft mbH	DM 1,000,000	Open	P	Y	Y	Y	49 69 273 009-0	GER	O	U
BUB Bayerische Unternehmensbeteiligungs-AG	DM 1,000,000	DM 12,000,000	N	Y	Y	Y	49 89 286651	GER	O (B), (C)	S
Capital Privé	FF 3,000,000	FF 12,000,000	N	Y	Y	Y	33 42 335158	FR	O, (B), (C)	S
CD Technicom S.A.	ECU 124,000	ECU 1,250,000	N	Y	Y	Y	32 0 81 32 32 11	BEL	A,B,C	S
Chase Gemina Italia S.r.l.	LIT 1,000,000,000	LIT 15,000,000,000	N	Y	N	Y	39 2 6890391	IT	O	S
Compagnie Financière D'Epargne de De Placements	£ 100,000	£ 2,000,000	P	Y	P	Y	33 1 41 25 40 00	FR	B, I, L, M, (B), (D), (N)	S
CVC Capital Beratungs GmbH	DM 3,000,000	DM 100,000,000	N	N	N	Y	49 69 74 01 74	GER	O	-
CVC Capital Partners S.A.	£ 2,000,000	£ 30,000,000	N	N	Y	Y	33 1 49 06 14 69	FR	O	F
CVC Capital Partners B.V.	Nfl 3,000,000	Open	N	N	Y	Y	31 30 6614311	NE	O	-
De Nationale Investeringsbank N.V.	Nfg 1,500,000	Nfg 30,000,000	N	Y	Y	Y	31 70 3425425	NE	O	U
Degroof Investments	BEF 40,000,000	Open	N	N	N	Y	32 2 287 97 54	BEL	I, H, O	U
Demachy Worms et Cie	FF 3,000,000	FF 15,000,000	N	Y	Y	Y	33 1 44 13 35 61	FR	B, C	S
Edelson Technology Partners	US$ 300,000	US$ 2,000,000	Y	Y	Y	N	33 1 4583 8989	FR	A,B,C,(H,M)	-
Financière Saint Dominique	ECU 200,000	ECU 50,000,000	Y	Y	Y	Y	33 1 49 55 70 02	FR	O	-
Finovelec	FF 1,000,000	FF 10,000,000	Y	N	N	N	33 47 47 69 00	FR	A, B, C, D, E	S
Gilde Investment Funds	Nfg 500,000	Nfg 10,000,000	Y	Y	N	Y	31 30 51 05 34	NE	A, B, E, G, H, I, L, Q, (F), (O), (M)	S
Groupe Siparex	FF 2,000,000	FF 15,000,000	N	Y	Y	Y	33 78 52 41 07	FR	O	S
Halder Beteiligungsberatung GmbH	DM 1,500,000	DM 7,000,000	N	Y	Y	Y	49 69 24 25 330	GER	O, (F), (M)	S
Halder Invest N.V./S.A.	BEF 30,000,000	BEF 200,000,000	N	Y	Y	Y	32 9 233 20 20	BEL	E, I, L, M, R	S
Holland Venture Beheermaatschappij	Nfg 200,000	Nfg 5,000,000	Y	Y	Y	Y	31 20 6976041	NE	O	S
Kleinwort Benson (Deutschland) GmbH	£ 2,500,000	Open	N	Y	Y	Y	49 69 27402122	GER	O	S
Lessius Ventures	BEF 10,000,000	BEF 30,000,000	N	Y	P	Y	32 2 511 90 70	BEL	O, (B), (C)	F
Limburg Investment Company	BEF 10,000,000	BEF 300,000,000	Y	Y	N	Y	32 11 22 21 77	BEL	O	S
MeesPierson Participaties B.V.	Nfl 500,000	Nfl 4,000,000	N	Y	Y	Y	020 527 4412	NE	O	-
Mittelständische Beteiligungsgesellschaft Baden-Württemberg GmbH	DM 50,000	DM 1,500,000	N	Y	Y	Y	49 711 1645-6	GER	O	-
New Markets Investments - BMI Europe	0	Open	Y	Y	Y	Y	33 1 4767 6353	FR	A, C, H, K, M, Q	S
Pallas Finance	FF 10,000,000	FF 40,000,000	N	Y	N	Y	33 1 40 74 22 30	FR	O,(F),(M),(N),(O)	S
Parcom Beheer B.V.	Nfg 2,500,000	Nfg 20,000,000	N	Y	Y	Y	31 35 569100	NE	I	S
Paribas Electronique	FF 2,000,000	FF 10,000,000	N	Y	N	N	33 1 42 98 13 32	FR	A, B, C	-
Partno Management BV	0	ECU 800,000	Y	Y	Y	N	31 20 697 7401	NE	B,C	S
SCF Seed Capital Fund GmbH	DM 50,000	DM 500,000	Y	N	N	N	49 30 853 1029	GER	A, B, L	S
Société Générale	FF 5,000,000	FF 50,000,000	N	Y	Y	N	33 1 44 63 78 81	FR	O	U
Synerfi S.A.	BEF 10,000,000	BEF 50,000,000	N	Y	Y	Y	32 2 675 6767	BEL	-	S
Thomson-CSF Ventures	FF 1,000,000	FF 10,000,000	Y	Y	P	P	33 1 55 77 90 00	FR	A, B, C, K	S
Trinkaus Montagu Equity GmbH	DM 2,000,000	Open	N	Y	Y	Y	49 69 529 20 71	GER	A, C, D, E, F, G, H, I, K, L, M, N, Q, R	S
TVM Techno Venture Management	DM 1,000,000	DM 5,000,000	Y	Y	Y	Y	49 89/38 17 05-0	GER	A, B, D, E, A, I, L	S
Unternehmensbeteiligungsgesellschaft Baden-Württemberg AG	DM 500,000	DM 6,469,000	Y	Y	Y	Y	49 711/122-2802	GER	O	S

Key: Y=Yes, P=Possible, N=No. Sector Preferences: A=Communications, B=Computer Related, C=Other Electronic Related, D=Biotechnology, E=Medical, Health, F=Energy, Natural Resources, G=Agriculture, H=Consumer/Related Products, I=Industrial Products, K=Space and Aviation Industry, L=Industrial Automation, M=Wholesale, Trade, Distribution, N=Property, O=Anything, P=Financial Services, Q=Media, Entertainment, R=Chemical Industry. Any letter in brackets indicates a preference not to invest in that sector. Sectors ranked in descending order of preference are indicated in bold; otherwise preferred sectors are listed in alphabetical order. Availability of funds (able to make...): U=an unlimited number of investments, S=a significant number of investments, F=a few investments. Countries: BEL=Belgium, FR=France, GER=Germany, IT=Italy, NE=Netherlands

Source: KPMG Corporate Finance

■ PREVIOUS AWARD WINNERS

A trio of success stories

THE former winners of the FT's enterprise award are still winners in their business worlds so far. Not surprisingly, they all agree that the competition is A Good Thing, writes Catherine Milton.

"I could recommend it to anyone," says Mr Peter Vassallo, managing director of Vassallo Sea Foods, winner in 1991.

The judges' record speaks for itself. Mr Tim Hely Hutchinson, the first winner, is now managing director of Hodder Headline, after a £48.9m takeover this year of Hodder & Stoughton. Mr Vassallo is still managing director of Vassallo Sea Foods, which has grown through the recession. Last year's joint winners, Mr Adrian Breger and Mr Jamie Gibson, of Breger Gibson, remain joint managing directors of their disposable nappy company, which has also remained profitable through the downturn – and in a market dominated by multinationals.

The high profile Mr Hely Hutchinson, then of Headline Book Publishing, was winner of the overall award and winner in the "large start-up" category. With £1.3m of start-up capital and two subsequent fund-raisings totalling £2.1m, Headline penetrated an already crowded field dominated by established publishing groups. In 1990 it made pre-tax profits of £609,000 on sales of £7.8m.

Mr Hely Hutchinson thinks he missed out on the publicity that his successors have attracted: "It was a morale booster rather than anything else. It further raised my standing in the City, among venture capitalists and in the investment community. I didn't get the publicity of last year's winner, though. The award has built up over the years. But I like the watch and was happy to win."

The award serves "some kind of purpose," he admits – "they are good for the winner and venture capitalists themselves are very interested in showing their successes. I heard about the award through my backers." But he adds: "You don't suddenly get a lot more orders, or authors, just because of one award and there is always the superstitious fear that if you win an award you hit trouble the next day."

He also enjoyed helping select his successor: "There was every attempt to make things fair. I think we picked a good winner." That was Mr Vassallo, who agrees the award brought him publicity and also that helping to judge the following year's candidates gave the added bonus of some useful insights. He says: "The award gave me exposure to a great number of people who have achieved. They gave me an insight into what is and is not achievable in business and what is and is not achievable in management.

"Being involved in judging the following year's candidates was an illuminating experience. I enjoyed being privy to conversations between top industrialists and top people in the City." He says it is difficult to say whether the award "changed" anything: "It certainly was a talking point, a focus for local interest."

Mr Vassallo exudes the confidence of one who believes in the future of his company. Two years after winning the award everything in the world of seafood is going swimmingly.

HE WON the award for the transformation of what had been a family fishmongering business into one of the main suppliers of fish to Britain's supermarkets.

The judges praised his business vision - the way he seemed able to anticipate the changes taking place in the sourcing, processing, marketing and sale of fish and exploit them to his company's advantage.

He sold the business for £18m to Albert Fisher in 1991, choosing the food and vegetables wholesaler over several other suitors. On the profits from this deal, struck before the award was won, Mr Vassallo has realised his dream of becoming a rally driver. But he has not taken his eye off the road through the tricky landscape of recession. Since 1987, when venture capital funds were injected into the business, employment has grown from about 70 to about 280 with average sales per employee rising over the last two financial years to £155,172 from £139,405.

Latest annual sales are approaching £40m, compared with £33.4m in the year to August 1992 and £27.9m over 13 months in 1991 - a sharp increase since 1987 when turnover was under £3m. With margins tight in the food industry, profits have been a more modest £2.19m in 1992 and £1.81m in 1991. The company has just received confirmation of a further investment from Albert Fisher – "this will continue the growth potential of this company," says Mr Vassallo.

AT Breger Gibson, a spokesman for the two MDs says: "The award meant a lot to both Jamie and Adrian. They worked very hard and it really was the highlight of the success of the business."

Turnover for the year to March 1992 increased to £21.8m compared with £19.5m the year before while pre-tax profits fell a little to £1.02m from £1.11m. The last two years were a step change from 1990 when sales were £11.7m and profits just £693,000.

The whole company enjoyed the award: "We were all very very thrilled and the associated publicity was a help. As soon as the information was released in the FT all sorts of people that we would not have thought would have known about us started contacting us."

Breger Gibson also enjoyed the visit by one of the judges – "the visit was actually very interesting. He was very interested in us, which makes a different. It was worthwhile meeting someone from outside the sector."

The 325-stong company is now working towards the "ultimate flushable diaper" – "it is our belief that not now but in the next century, that will be used generally across the board."

More buzzwords explained

Continued from page 4

funding will almost certainly be needed later as the business grows or unforeseen problems arise. At this stage the original venture capital investor may reduce his holding and bring in others to spread the risk.

Seed Capital: usually quite small amounts of capital provided to turn a good idea into a marketable product or service. The riskiest form of venture capital since the concept, the technology, the entrepreneur and the market are all unproven. For this reason seed capital has been in very short supply. Some venture capitalists argue seed capital should not really be necessary since most people should be able to raise say £25,000 from savings or bank borrowings secured on their home.

Spin-out: a new company set up by a larger established group to exploit new developments or fresh market opportunities and in which the management team and a venture capital backer also take equity stakes.

Star: a company which is so successful that it pays for all the failures and humdrum performers in the venture capitalist's portfolio.

Sweet equity: the extra percentage of a company's equity which is allocated to the managers over and above the shareholding which their own relatively modest financial investment would qualify them for. The extra shares are seen as an additional motivation and reflect the fact that it is the managers' hard work which will ultimately make the venture succeed. Sometimes also referred to as sweat equity to reflect the hard work the managers put in.

Trade sale: the sale of a company to a corporate buyer. This is the most common exit route (qv) for venture capital backed companies.

Venture capital: equity finance provided usually to young, unquoted businesses to enable them to get started or to expand. Equity funds provide a basis for the company to raise further bank finance and provide a cheap source of funds in the early stages of the business because dividends can be delayed until the company starts making profits. Venture capitalists say they bring not only money but also management and industrial expertise to their investee companies. *See 'Hands On' definition, on facing page.*

Vulture capital: the derogatory term applied to an offer of funds or a deal which gives the venture capitalist an unfairly large equity stake in a company.

■ FRANCE

Resilience in a tough climate

FRANCE'S venture capital industry, like a child, may find that it grows up more quickly in a more difficult environment.

The recession which has hit French industry over the past year has limited the resources available to venture capital funds while making life much more difficult for small and medium-sized companies.

So far, the industry has been resilient to the harsher economic climate which is expected to bring a contraction of about 1.5 per cent in Gross Domestic Product this year.

Mr Dominique Peninon, president of AFIC (the French Association of Capital Investors) says that in 1992 – the latest year for which industry-wide figures are available – the total amount of new investment in venture capital projects slipped only slightly to FFr6.63bn, from FFr6.9bn in 1991.

"This was surprisingly high in the face of economic conditions" said Mr Peninon. "It suggests investors continue to have confidence."

This was particularly the case in the technology and consumer goods sectors, which were the largest recipients of funds amongst the 1,888 venture capital investments in 895 separate companies.

The current year, however, is proving more difficult. Insurance companies and banks, the principal providers of external finance for venture capital in France, have been tightening credit in response to problems in the property market and their expansion plans.

"Insurance companies feel they cannot afford to invest in unquoted high-risk investments at the moment," says Mr Denis Mortier, director for France of the European venture capital association.

Despite leaner times, some venture capital activities remain fairly brisk.

"Buy-outs are fairly active," says Mr Mortier who adds that the need for replacement capital has also been boosted by the need on the part of institutional investors to realise capital gains.

The ability to exit from investments, however, has become more difficult – "from the end of 1992 it started to become more and more difficult to realise investments," says Mr Peninon. He blames the weakness of Paris' secondary stock market as well as the slowdown in the economy and in mergers and acquisition activity for the trend.

THE various pressures facing the French venture capital industry may well accelerate its pace of development.

"There are going to be very big changes in our industry over the next two to three years," says Mr Mortier.

One such change will be an increasing consolidation of the number of venture capital firms. There are more than 150 venture capital firms in France, more than in the UK. But the value of money they manage is about half of the UK total.

The discrepancy reflects the fact that the French market is less mature than its UK counterpart – "in a younger market you have a lot of funds," says the manager of one venture capital group. "It is only when investors can recognise the quality companies that the number is limited."

The difficult conditions now being experienced are expected to hasten the trend to a fewer more powerful players through the failure or merger of struggling funds.

Most members of the French venture capital industry welcome such a process. But they argue that further reforms are necessary to ensure the continued development of the industry in France.

The two most important are the development of pension funds and the creation of a stronger market on which venture capital investments can be floated.

The weakness of the French pension fund industry is perceived as an important problem by venture capital firms. "It deprives us of a source of finance which is available to counterparts in the UK and US," says one investor.

Mr Motiet estimates that the difference between the FFr7bn received as external funds by UK venture capital companies in 1992, and the FFr3.2bn received by French businesses in the same year, is accounted for almost completely by the strength of UK pension fund investments.

Moves are afoot in France to encourage the development of a pension fund system, prompted by the crisis in the state pensions system. The implementation of new laws, tax incentives and regulations is expected to be a gradual process. But, as Mr Peninon, points out, even one per cent of the funds which go towards pensions in France would represent an enormous stimulus for the French venture capital industry.

ANOTHER boost for the industry is sought in the area of stock markets. After a brief flurry of activity in 1986 and 1987, venture capital companies have found it almost impossible to float their investments on the French stock markets.

"There is no appetite on the stock market at the moment," says Mr Peninon, who argues that investors were disappointed by the first wave of venture capital listings on France's secondary market.

The solution, according to many of the players in the industry, is the creation of a "European Nasdaq" – a computerised off-market trading system. They argue that this would resolve the weaknesses of Europe's secondary stock markets, raise liquidity, and tempt international investors, particularly from the US.

For the moment, however, the industry must continue to struggle with the grim economic conditions. Even here, some industry members see benefits.

"The crisis has forced venture capital managers to become much more 'hands-on,'" says Mr Mortier. "It will create much more experience investment teams."

John Ridding

■ UK REGIONAL FUNDS

Flotations return to favour

Edinburgh: In areas of Scotland least damaged by recession, management buy-out teams have been delivering good returns to venture capital backers, merchant bankers and lenders

THE LAST six months have been the most profitable in the 33-year history of 3i in Manchester. Mr Phil Goodwin, local director of operations says it is the ideal illustration for the recent improvement in venture capital exit routes.

The best performer was Metrotect, a pipeline coating company bought out by management for £6m in 1986 with the backing of 3i Manchester and the local office of NatWest Ventures. This summer it floated on the stock exchange for £30m.

Taco, a manufacturer of plastic film in Cheshire, was subject to a £10m management buy-out last year. It was sold to Briton, an emergent packaging group, for £27m, further swelling 3i Manchester's bottom line.

This November Mr Goodwin, together with Murray Johnstone's Manchester managers, expects to do well from the flotation of Lilliput Lane, the Cumbrian miniature model maker rescued by North of England Ventures and Lazard Ventures in 1990 after a diversification programme ran into trouble because of rising interest rates.

Mr Peter Folkman, managing director of NEV who is generally regarded as a guru of regional venture capitalism in Britain, is expecting to receive £7m for the sale of 25 per cent of the company. NEV is keeping 5 per cent to ensure future returns and influence when Lilliput expands.

ACROSS the north and Scotland – the areas of Britain least damaged by recession – management buy-out teams have been delivering good returns to venture capital backers, merchant bankers and lenders.

Mr Charles Richardson, who this month joined 3i's London office from his post as its northern regional director, says: "There was a worry that flotation might have lost its attractiveness as an exit route because not long ago the market was not interested in anything worth less than £50m.

"Some of the managing directors of companies we had backed were beginning to wonder if the game was worth the candle. All that has changed. We have been involved in 12 flotations in the north and in Scotland this year and we have several more coming up. Most were management buy-outs three or four years ago."

Mr Folkman adds: "In the last six months the stock market boom has helped us all feel better. Portfolios are looking stronger."

This is none too soon for most regional funds. In spite of being well backed by institutions and larger national funds, most are relatively small by London standards. Their portfolios are limited in size and it does not take many failures to make them look unhealthy.

One or two small funds have disappeared from the FT's yearly list of principal sources of regional capital, having been absorbed by bigger parents or neighbours. New entrants are usually backed by national institutions with deep pockets.

Profits are now being made, but the scope for reinvestment in new projects appears to be limited. At the same time, senior debt – the working capital element of most deals – is less freely available because the clearing banks which provide it are still cautious.

"The great irony is that at the present low cost of borrowing, leveraged buy-outs should be easier to do than ever before, but they can't be done easily because the banks are still worried about lending," says Mr Paul Mitchell of Rickett Mitchell, the Manchester corporate finance boutique.

Mr Mitchell also warns of the problem presented by prices. Private companies have always sold for about five times earnings but the price of public companies – in this instance usually subsidiaries within large groups – has been more variable.

The returns being achieved by the flotation of some management buy-outs are so good partly because managements bought their businesses cheaply: their parents were slimming down quickly to cope with recession.

Many companies were sold for less than 10 times earnings, at a time when earnings were depressed. Earnings are now rising and Mr Folkman says 18 times earnings is regarded as a the starting point for negotiations.

As venture capitalists aim to float at 15 times earnings to recoup their investment at a tidy profit, margins and opportunities look limited.

Mr Lindsay Forbes, manager of the British Linen Bank – the merchant arm of the Bank of Scotland – in Manchester, says: "We are certainly not seeing a great increase in the number of do-able deals coming across the desk.

"There is now too much money available for the number of good projects worth backing – and possibly everything is still too geared up for management buy-outs. It is the people who run businesses who count and there is a limited number who are really good enough to deliver.

IS the management suitable? This is the question that Mr Forbes and his colleagues always ask.

If a buy-out is relatively cheap, a moderate management must look promising in terms of return on capital for venture capital backers. In more expensive buy-outs the management must be very good to make a deal work for its backers.

The economic climate is also a factor. "In good years you have more chances of a bad decision working," says Mr Forbes.

Most of the regional venture capital industry has moved in the relatively easy market of management buy-outs from motivated vendors for the past few years, and fund managers now face a stern test of their mettle. To make good returns they will have to do what everyone thinks venture capitalists are supposed to do – back entrepreneurs with new businesses or back existing companies which need to advance with risk capital rather than potentially crippling borrowings.

Given Mr Forbes's warning about the perpetual shortage of good entrepreneurial managers, nerves will be tested, especially if people feel under pressure to do something – anything – with the piles of money they will be sitting on from this year's flotations.

Ian Hamilton Fazey

Continued from previous page:

Award winner 'a genuine entrepreneur'

based on a range of relatively unexciting products sold into niches of mostly mature UK and international markets.

These products include dye stuffs and dyestuff intermediates for textiles, plastics and ink, hair dyes, photographic chemicals and sulphur dyes, sulphur dioxide and iodine derivatives, and fine chemicals for pharmaceutical and veterinary products.

It is not as if Holliday's strategy – as developed before and after the buy out – even sounds exciting on paper. Any number of companies have tried to concentrate on higher margins, aimed to be more market led, attempted to source more cheaply, and vowed to expand on to the continent into related product areas. Far fewer actually deliver on the promise.

Mr Peagram recalls thinking to himself a week after he arrived as managing director in October 1985 that he had probably lost his own money. Holliday Dyes and Chemicals, as it was then called – a family company with a proud history dating back to the 1830s – had been in receivership once and was in deep trouble again. Wooed away from the relative safety of Croda Chemicals – where he had also been managing director – Mr Peagram subscribed £50,000 for a 25 per cent stake (and an option on a further 24 per cent).

Those early months, he says, were touch and go – "it was a year before I really felt safe. Even so, if the recession had struck in 1986 we would probably have gone. There wouldn't have been time to build up enough fat."

Losses of £1m on sales of £8m in 1985 demonstrated just how dire things were, and Peagram needed all his natural persuasiveness and negotiating skill to convince Holliday's local Inland Revenue inspector at that stage not to pull the plug.

After the initial turnaround the opportunity arose to buy out the majority shareholder – a Jersey businessman – which is when Peagram approached NatWest Ventures. Significantly the deal included ratchet terms which had the effect of boosting his personal equity stake – and reducing the holdings of the venture capitalists – if certain profit targets were hit – "they never thought I'd make them," grins the man whose personal stake in the business is now worth £37m.

Holliday's success since the buy-out has stemmed from a combination of organic growth and a series of well conceived acquisitions, of which the 1991 takeover of Lancashire based William Blythe was by far the biggest.

All in all, Holliday has spent £44.9m on acquisitions since September 1987.

"I've always had the philosophy that before we acquired a company we should do a very thorough investigation," says Peagram.

"We generally try to identify 10 things that we can do when we take over. Trying three would make a difference, but we tend to go for all ten and end up succeeding with seven. In a nutshell, that's why the returns are so good."

Common features of Holliday companies include an industrial customer base, flexible plants, batch-based processes and high capital barriers to entry. But it has been that uncommon ability to breathe new life and ideas into underperforming businesses which has distinguished Peagram and his team from the run of ordinary companies.

AS the Venture Award judges observed: "Michael Peagram has a highly analytical approach to both the market and to acquisitions. He is a genuine entrepreneur and a fine manager, combining clear thinking, vision and strategic skills with excellent man management."

Mr Peagram admits his own style may not be everyone's cup of tea – but the enthusiasm and commitment are infectious and have undoubtedly helped him recruit and retain talented managers in the operating businesses.

He acknowledges, though rejects, the fears of some City analysts that Holliday is a one man band, and has made it known that the roles of chairman and chief executive will be split within the next couple of years – "this is not because of some theoretical corporate governance charter," he explains. "It's because there's plenty of work for two people."

Relations with the City have been good so far – a small dip in first half profits has not damped expectations of around £15m for the full year (against £12.4m in 1992) – and he comes across as strongly motivated by the challenge ahead.

"We've given the venture capitalists what they wanted. The big pressure now is from the new shareholders, with whom I have to establish a new track record over the next two to three years," he says.

Peagram is nonetheless conscious that managing a medium sized company may require new skills – given its historic record Holliday's turnover could be double 1992's £97m in a couple of years time.

"In many ways we are not a small company any more. Our factory here in Huddersfield, which has around 270 people, has much the same professionalism as the bigger ICI plant next door.

"But I don't see why larger companies can't apply many of the features of a well-run small business."

1993 VENTURER OF THE YEAR AWARD : CATEGORY WINNERS

- **Small start-up:** Tillery Valley Foods / Chris and Hilary Bradshaw. Venture capital backer: John Northcott from British Steel Industry Ltd.
- **Large Start-up:** Safeline / Peter Davis. Venture capital backer: Richard Young from 3i in Manchester.
- **Management buy-in/Turnaround:** National Express / Ray McEnhill. Venture capital backer: Stephen Welton from Henderson Venture Managers.
- **Small MBO:** Metrotect Industries / Brian Thomas. Venture capital backer: Ian Nolan from 3i in Manchester.
- **Large MBO:** Holliday Chemical Holdings / Michael Peagram. Venture capital backer: Miles Stanyard from NatWest Ventures in Leeds.
- **Expansion:** August Systems / Chris Goring. Venture capital backers: Graham Oldroyd and Duncan Cameron from NatWest Ventures.

■ JAPAN

Caution prevails

THE recent stabilising of the Tokyo stock exchange and a spate of public offerings by smaller companies are encouraging Japan's venture capital sector.

However, the bursting of the country's asset bubble and the squeeze in capital flow, prompting rapid restructuring of investment portfolios at venture capital companies, has scarred relationships with businesses in which they invested in the late eighties.

Venture capital in Japan has taken a different form from that in the US and Europe, where capital is invested in high-risk companies starting up. Japanese venture capital companies search for mature companies with potential to be listed publicly and look for future profits through flotations and underwriting.

During the sharp appreciation of share prices in the late eighties, venture capital companies made vast investments into businesses preparing to go public, accumulating shares ahead of listing.

But the sharp fall in listings and the slump in the stock market has hurt most venture capital companies, and some groups have been forced to liquidate due to the increase in bankruptcies and bad loans. Yamatane Investment, a venture capital subsidiary of Yamatane Securities, was dissolved earlier this year, with the investments shifted to the parent.

Many venture capital companies are now looking to sell off their investments. Businesses are increasingly frustrated as the venture capital groups are forcing businesses to buy back shares, or selling the shares to larger companies, forcing the businesses to become a part of a keiretsu, or industrial grouping.

According to a survey by Nikkei Venture, a business magazine, venture capital investment in fiscal year 1992, posted a decline for the first time since the survey started 10 years ago. The outstanding investment balance at the end of last March fell 1.7 per cent to Y876.1bn, while the loan balance fell 9.6 per cent to Y1,362bn.

As for new investments, growth is being hampered by the stagnation of the economy. "We have the capital and are intent on investing, but there is a lack of worthwhile businesses," says an official at a second tier venture capital company.

Venture capital companies are more cautious of the rising risks from investments due to the rise in bankruptcies. Last fiscal year, venture capital companies faced 71 bankruptcies in businesses in which they had invested up 69 per cent from the previous year.

Some venture capital companies, in the meantime, have started to focus on start-up companies which are not necessarily looking for a public listing, but need financing. Mr David Wilson, at 3iBJ, a joint venture capital company between Industrial Bank of Japan and 3i, the UK development venture group, says, "Investment activity relating to young companies is moving up, and there are many new companies wanting to do new things."

EMIKO TERAZONO in Tokyo reports that the growth in new Japanese investments is being hampered by the stagnation of the economy

The Ministry of International Trade and Industry is also trying to encourage the start up of new companies and last year set up a commission to study new ways to promote venture capital investment in new high-risk but small businesses.

The commission, composed of university professors and bankers, is studying tax breaks for venture capital companies and the deregulation of over-the-counter listings of the stocks of venture capital companies.

Mr Takatoshi Takahashi, deputy director of Miti's machinery and information industries bureau, says that the current economic situation is a chance for the smaller venture companies.

"The Japanese economy is going through a structural change, and smaller companies have an advantage," he says.

Larger companies are finding difficulty in coping with the end of life time employment, the gradual unravelling of the keiretsu, and traditional relationships, and the shift from mass production to limited versions of products.

However, he also acknowledges the financing problems facing start-up companies, and adds that Miti is aiming to support entrepreneurs and new businesses through new loan programmes.

The recent emergency economic package announced in September, included an increase in loan facilities to small and medium companies by over Y1,000bn over the next year, and tax incentives for machinery and equipment purchased during the year to September next year.

The easing of various bureaucratic restrictions by the new government under Mr Morihiro Hosokawa, is also expected to eliminate regulatory barriers barring new businesses, and may stimulate a number of start-up companies. The cabinet wants the 11,000 regulations of the bureaucracies decreased by 10 per cent in the near term.

Meanwhile, areas in which venture capital companies currently see growth are those in businesses related to environment conservation, health, and medical and bio-technology.

Venture capital companies are also focusing on the sharp growth in south-east Asia. Overseas investments by venture capital rose 6.2 per cent last year to Y130.5bn, as the recent rallies in the Asian markets and the number of new listings encouraged capital to flow into countries such as Malaysia and Indonesia.

Outstanding investment balance by venture capital companies.

Fiscal year	Ybn
1983	70.6
1984	114.8
1985	221.1
1986	241.5
1987	283.6
1988	359.8
1989	502.4
1990	742.5
1991	890.9
1992	876.1

Source: Nikkei Venture

The upswing in US equity markets over the past two years has helped revive the venture capital industry

■ THE US

Market upswing sparks a revival

THE US venture capital industry, which enjoyed a feast of funds in the 1980s, followed by a famine in the early 1990s, is now enjoying growth once more.

During 1992, US venture capital funds raised $2.54bn, double the $1.27bn of 1991, which represented a 10-year low for the industry, according to figures from Venture Economics, a New Jersey based statistical service. And in the first six months of this year funds raised totalled $1.29bn.

Disbursement of funds to US entrepreneurial companies, which usually follow a roughly similar pattern to the amount of money raised, totalled $2.54bn in 1992, up 54 per cent on the $1.65bn of 1991.

Why the revival? The main reason is the upswing in US equity markets over the past two years and the particularly strong markets for small company stocks and for initial public offerings of stocks in small company flotations.

The sight of shareholders in small companies which have come to market making huge gains on their investments has spurred portfolio managers to take a fresh look at putting money into venture funds.

A healthy public offering market, which enables fund managers to liquidate their portfolios more easily, also encourages them to put new money into this area.

Many fund managers argue that they have leant a lot from the problems they experienced in the late 1980s, when so much money was poured indiscriminately into venture funds that returns from many were poor. They intend to be much more selective this time round.

Others add that with conventional stock and bond portfolios expected to show much more modest growth in the 1990s than in the preceding decade, venture capital funds hold out the hope of relatively attractive capital appreciation.

A recent survey of venture capital fund performance by Venture Economics showed an overall industry internal rate of return of 13.9 per cent in 1992.

Another factor which could provide some stimulation to the industry is the budget package recently pushed through Congress by President Clinton, which gave tax breaks to individuals who invest in small companies for a five year period.

The sector able to attract most funds is software and services, which drew in $561.8m in 1992, up 67 per cent over 1991. However, its share of disbursements fell from 24.8 per cent to 22.1 per cent, thanks to the strength of some other fields.

Medical and healthcare businesses received $442m, nearly three times the 1991 total, and accounted for 17.4 per cent of 1992 disbursements, according to Venture Economics.

Keen investor interest in the area was underlined by the fact that it produced the greatest number of venture capital initial public offerings in both 1991 and 1992. However, uncertainty over the Clinton Government's healthcare reform package may have slowed growth in this sector in 1993.

TELEPHONE and data communications companies received $368m in 1992 as the US geared up for the much-forecast multi-media revolution which is supposed to transform communications practices over the next few decades.

Biotechnology companies gathered $261m in 1992, more than double the previous year, with their share of total outlays advancing from 8.2 per cent to 10.3 per cent.

By contrast, computer hardware companies attracted only 5.4 per cent outlays, down from 12.4 per cent. The latter figure points up a long-term change in the US industry, which began just after world war two with the foundation of ARD, a venture fund established in Boston by a group of entrepreneurs involved in Harvard University, the Massachusetts Institute of Technology and the Federal Reserve Bank of Boston.

The single most important event in ARD's history - and a landmark in the growth of the entire venture capital business - was its investment in the late 1950s in the then tiny Digital Equipment, which grew into the world's second largest computer manufacturer.

Other important landmarks in the growth of the sector included providing the seed money for Apple Computer, and at one point computer hardware companies accounted for almost 40 per cent of venture capital disbursements.

The changes in the sectoral distribution of funds has been matched by changes in the type of investor involved in the industry, and the age of company in which they put their funds.

Initially, wealthy families and individuals provided the main source of funds, but legislative changes in the late 1970s - to capital gains tax rates and investment guidelines - encouraged institutional investors to enter the arena much more aggressively. Pension funds now account for over 40 per cent of venture fund pools, compared to around 10 per cent for endowments and foundations and roughly similar proportions for individuals and corporations.

Large US corporations have been reducing their exposure to the venture capital sector, due in no small measure to the global recession of the past few years and a need to cut costs.

A survey by Venture Economics shows that 79 big US international corporations still have formal, strategically-oriented venture capital investment programmes, compared with 100 identified in 1990.

Mr Robert Mast, vice-president of Venture Economics, explains that "the economic climate of the past few years has been hard on corporate venture programmes, which tend to be strongly impacted by acquisitions, management changes and other shifts in corporate strategy."

However, the survey did identify 15 new venture capital programmes formed since 1990, led by investments in medical and healthcare companies.

THE bulk of venture capital funds is going into already established companies which need money for expansion, rather than into pure start-up businesses.

So-called "later stage" deals gathered three quarters of disbursements last year, compared with 68 per cent in 1991.

Some analysts say the move away from early stage deals reflects the strength of the initial public offering market, with investors keen to take a stake in businesses not long before they are floated.

Others complain that the prominence in the market of institutional funds, with their eyes on short-term returns, has meant a "perversion" of classic venture fund investing, with its focus on start-up companies and patient, long-term investing.

Martin Dickson

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WORLD ECONOMY AND FINANCE

*Powerful and predominantly positive forces at work in the global economy suggest the present time is a period of dynamic change rather than a weary recovery from recession. Economics Editor **Peter Norman** reports*

IT LOOKS as if the worst may be over. The big industrialised nations are either out, or beginning to see their way out, of recession. Elsewhere, activity is expanding rapidly in regions as far-flung as south-east Asia, China, the Indian subcontinent and Latin America.

Although prone to jitters, financial markets think they have already scented a better future. While businesses have been agonising about Japan's unprecedentedly severe post-war economic slowdown and the painful recession in continental Europe, bond and equity markets in the world's leading economies enjoyed a bull run this summer.

The animal spirits of the global investing community have been stirred by hopes of sustained expansion with low inflation: the holy grail of economic policy that has so often eluded politicians and central bankers over the past 40 years.

Investment conditions have certainly improved compared with a year ago. Short-term borrowing costs, already low in the US and Japan, have since fallen sharply in Britain and elsewhere. Although short rates are still comparatively high in Germany and most continental European nations, long-term rates in many countries have fallen to levels last seen at the end of the 1960s while in the US they recently touched a record low.

But while clouds may be lifting, it is equally certain that disappointments will lie ahead. It is difficult to enthuse about short-term prospects in most big industrial countries. Germany's recession may have bottomed out, but recovery will be difficult. Japan's downturn could have further to go in spite of government stimulation measures. Britain appears an exception with steady growth and a surprise drop in unemployment so far this year.

But the sluggish and patchy nature of the US economic recovery will probably set a pattern of slow recovery for much of the developed world.

Unemployment in the industrial world will continue to rise for the foreseeable future. More than 22m people are out of work in Europe, according to the Paris-based Organisation for Economic Co-operation and Development, while the jobless total in the 24 industrialised nations of the OECD is forecast to rise to 36m next year.

In spite of growing global interdependence, the industrial countries as a group will continue to make heavy weather of international co-operation. The Group of Seven, which some years ago looked as if it might develop into a directorate to steer the global economy, has degenerated into a high level talking shop of marginal utility.

A more serious issue for future global prosperity is the uncertainty over whether the Uruguay Round of trade liberalisation talks will reach a successful conclusion this year.

The former Communist countries that made up the Soviet Union and its empire in eastern Europe have still to master a difficult transition to market-based from command economies. While some nations such as Poland and the Czech republic are making progress, others, notably the former Yugoslavia, Azerbaijan and Georgia are racked by war.

At the same time, poverty will continue to dominate news reports out of Africa as civil war and bad governance stifle economic activity.

But the world has always been a mixture of good and bad, and such contrasts between hope and despair are especially typical for a period of transition. There are powerful and predominantly positive forces at work in the global economy that suggest the present time is a period of dynamic change rather than a weary recovery from recession and the inflationary excesses of the 1980s.

■ The collapse of communism has been accompanied by the spread of free market ideas that are opening up huge areas of the world, from India in the south to Siberia in the north, to more rapid development.

■ The end of the cold war has spawned a rash of geopolitical changes that will bring economic opportunity in their wake. Racial harmony in South Africa and peace in the Middle East will be difficult to achieve but are no longer unthinkable.

■ A technological revolution – or, more accurately, several revolutions are under way. Information and communications technologies, advanced automation and robotics, and new materials such as polymers, composites and ceramics are revolutionising production processes and products.

Although economists have so far found it difficult to measure the impact of new technologies on productivity, global investment in manufacturing has been remarkably strong in the face of recent economic slowdowns and recession. It is likely that new technologies are also beginning to have a positive impact on productivity in the service sector after several years of often misguided investment. The short-term effect of such developments may be large-scale job losses in formerly safe white-collar jobs, but the changes should ultimately benefit mankind.

This revolution in technology and production is fuelling and being fuelled by globalisation. It is an ugly word. But it means national boundaries and habits are becoming less relevant to business decisions as investment flows and production facilities move in quest of the highest possible returns or market share. Globalisation is breaking down the old distinction between industrialised and developing nations.

Such changes can leave policy makers wrongfooted. Governments, working to older agendas, have found themselves opposing or challenged by market forces. The past chaotic year in the European exchange rate mechanism was one symptom of such stress. Another is the industrial world's inability to reduce farm subsidies and fully support freer trade, unlike many of the newly industrialising nations of Asia and Latin America.

Wise governments realise that the only intelligent response to the challenge of globalisation is to make their economies more adaptable. In this spirit, many countries are trying to address structural problems left over from the past decade: soaring health expenditures threaten the US economy; Britain worries about its rising social security budget; and Germany must reduce the huge transfer of funds flowing to its new eastern Länder.

Likewise, officials and the public in Britain and the US are concerned about standards of educational achievement and some fast-growing developing nations are becoming increasingly aware of the hazards of pollution and rapid urban expansion.

The 1980s have left a legacy of sharply increased public and private debt. According to the OECD, gross public debt has nearly doubled to just under 70 per cent of the annual output of its member countries, from around 35 per cent in the mid-1970s.

Lax monetary policies in Japan, the US, Britain and Scandinavia engendered sharp asset price inflation and bubble economies in the late 1980s. The correction has been difficult: the consequent process of debt deflation has entailed a long period of balance sheet restructuring, curtailing growth and hurting banks, companies and families in all these nations.

Some problems are especially intractable. The generous protection given to agriculture in Japan and the European Community imposes a huge indirect burden on family budgets and, particularly in the case of France and its trading partners, exacerbates international tensions. But the political clout of farm lobbies has so far outweighed economic arguments against protection.

Communism's collapse and the disintegration of the Soviet Union have also had far-reaching economic effects that must still be digested.

The fall of the Berlin Wall in 1989 was a triumph for western values, but the badly thought-through unification of Germany has turned into a nightmare for policy-makers. The inflationary pressures unleashed by German monetary union prompted the Bundesbank to tighten credit conditions with little regard for the economic welfare of its ERM partners.

The resulting strains saw the forced exit of Britain and Italy from the system last September, followed by a series of devaluations affecting the Iberian currencies and Ireland. They culminated with the speculative attack on the French franc in July that finally forced EC finance ministers and central bank governors to widen ERM fluctuation margins to 15 per cent from 2.25 per cent and 6 per cent previously.

The scale of speculation against the ERM was a graphic example of the impact of deregulation and globalisation on long-standing policy arrangements. The removal of exchange controls in preparation for the European Community's single market at the end of last year made the ERM's system of fixed but adjustable parities more vulnerable to speculative attack than at any time in its 14-year history.

The past 10 years have seen a huge increase in the volume of funds that investors can shift across frontiers. The Basle-based Bank for International Settlements (BIS) estimated the aggregate daily turnover in the foreign exchange markets at nearly $900bn in April 1992, equal to 13 times the GDP of the OECD group of countries on an annualised basis.

Cheap telecommunications and computer equipment and a wide range of derivative products have encouraged new and more aggressive companies to embark on speculative transactions. New York hedge funds, such as the Quantum Fund managed by Mr George Soros, delivered the *coup de grâce* to sterling last September. Normally conservative insurance companies and pension fund managers were reported to have led the flight from the French franc into the D-Mark in July.

Markets can change their views with astonishing speed. France's failure to keep its currency in a 2.25 per cent band against the D-mark came only weeks after it appeared that the franc might supplant the D-mark as the anchor currency of the European Monetary System. As Mr Alexandre Lamfalussy, the BIS general manager, observed recently: "No country is isolated from the policy behaviour, or misbehaviour, of others".

Financial markets have shown that they can mount a direct challenge to the monetary sovereignty of nations. So far, governments have no clear strategy for dealing with this phenomenon. If the EC is any guide, it is likely that they will reject turning back the clock and re-introducing capital controls. Governments are more likely to take care that policies and economic conditions in their countries show greater compatibility.

For capital movements are not just a short-term phenomenon. Foreign direct investment flows have overtaken foreign trade as an engine of world growth. Through foreign direct investment, multinational companies are having an ever greater influence over the future of countries and their citizens.

Statistics published by the OECD earlier this month estimated the stock of foreign direct investment by its 24 member states at $1,720bn in 1990, up from $440bn 10 years before.

Much of this spending has flowed among the industrialised nations. The drive for a single European market encouraged Japanese car and electronics manufacturers to set up plants in the UK. But rising costs and soaring exchange rates in the developed world have also spurred much investment in newly industrialising countries. A recent Thai government paper traced the large increase in Japanese investment in Thailand to the Plaza agreement of 1985 which helped push the dollar lower and produced a surge in the value of the yen.

But, as with most developments in the world economy, there are pluses and minuses. In a recent report, Ms Gail Fosler, chief economist of the Conference Board in the US, noted that business spending was growing in countries with relatively low capacity utilisation rates, such as the US, Canada and Mexico. This, she said, suggested that "business spending is no longer driven by business cycle considerations but by global competition".

Mrs Sylvia Ostry, head of the Centre for International Studies at the University of Toronto and a former chief economist at the OECD, goes further. New technologies and foreign direct investment are creating "global overcapacity in industry after industry after industry", she says.

Mrs Ostry has predicted new types of friction between nations or trading blocks as they adjust to these changed conditions. An early example was the so-called social dumping case in which the Hoover company shifted vacuum cleaner production from Dijon in France to its plant near Glasgow in Scotland to take advantage of less regulated labour markets and lower social costs.

The pressure of competition among the industrialised countries and from the dynamic economies of east Asia and Latin America has become so remorseless as to make some people think the unthinkable. During the summer, Mr Jean-Claude Paye, the secretary-general of that free trade bastion the OECD, said he would "not rule out protectionism as a last resort" if it preserved the industrialised world from social unrest caused by mass unemployment.

It is a moot point whether politicians and electorates in the industrial world have adjusted their expectations sufficiently to the prospect of cut-throat international competition and slower growth over the rest of the 1990s.

Low opinion poll ratings suggest that politicians have coped poorly in the face of changing world economic conditions. It is a paradox that in an increasingly interdependent global economy, politicians are having to deal first and foremost with domestic issues to ensure their re-election.

The heady days of the 1980s, when Germany's Chancellor Hel-

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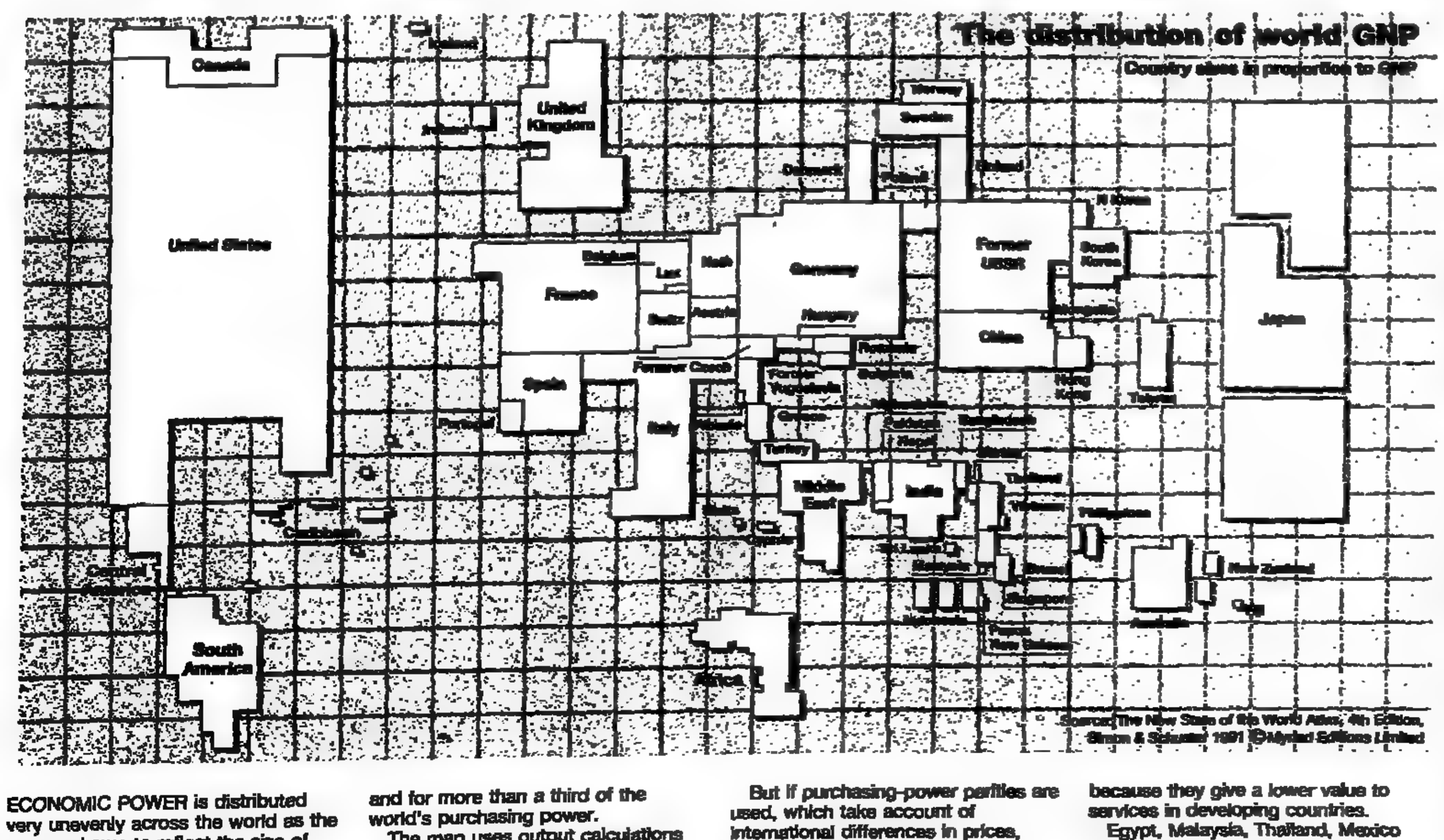

ECONOMIC POWER is distributed very unevenly across the world as the map, redrawn to reflect the size of national incomes, shows.

Three states – the US, Japan and Germany – with only 9 per cent of the world's population, account for half the world's income and for more than a third of the world's purchasing power.

The map uses output calculations that convert local-currency GDPs into dollars at market exchange rates. The result is that no developing country outranks any of the G7 industrial economies.

But if purchasing-power parities are used, which take account of international differences in prices, another picture emerges. China in particular would be more than five times the size of that on the map since its GNP is understated at current exchange rates. This is because they give a lower value to services in developing countries.

Egypt, Malaysia, Thailand, Mexico and Brazil also would look a lot less poor on a PPP basis. The last two would be bigger than Canada.

Emma Tucker

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■ FINANCE AND INVESTMENT

FINANCIAL MARKETS

Investors flex their muscles

*Hard-pressed governments, lured by the attractions of global money, may find that the political price is embarrassingly high. **Barry Riley** reports*

WITHIN THE past few weeks a number of governments of member states of the European Community have experienced the power of today's free-wheeling global capital markets. The European Monetary System has effectively collapsed and several governments have had to abandon pledges on exchange rates.

Global money is attractive but dangerous. On the one hand, the international capital market has offered hard-pressed governments an attractive opportunity to raise capital. It might, for instance, have been much harder for countries such as France, the UK and Spain to sustain large budget deficits without the ability to sell bonds in large volumes to international investors.

On the other hand, the global investors impose a price. If a country's economic policies are not attractive to them they will attack first the short-term financial markets, with pressure on the currency, and second they will withdraw support from government bonds.

For developed countries these constraints can be politically embarrassing but by no means fatal. But in the third world the choices are often harsher. Many governments of developing countries have in fact regarded the global capital market as no more than an unacceptable arm of economic imperialism. But in cutting themselves off to secure political independence they have often condemned themselves to the economic backwaters.

Now, many developing countries are at last embracing the dangerous opportunities offered by international capital. In terms of equities, large volumes of money are flowing into so-called "emerging markets" and even certain third world debt securities, for instance in South America, are finding international takers.

There may be a very long-term cycle to all this. Global capital flowed freely across borders in the 19th century, when the City of London was financing railroads in North America, mines in Africa and ranches in Argentina. The risks turned out to be fairly high. Investors in South American bonds, for instance, were usually the victims of default – a lesson which banks relearned in the 1970s.

By the time of the first world war the barriers were going up, and episodes of hyperinflation and depression in the inter-war period had a negative effect. When the second world war followed, cross-border flows were almost completely snuffed out, and most international assets of European countries had to be sold to meet war debts, or were forfeited.

For a long time afterwards a capital-starved Europe hoarded its resources behind a system of controls on capital movements. But these were steadily dismantled, especially in the 1980s, as more liberal philosophies became dominant.

Moreover, the opportunities for investment in Europe have diminished as the economic growth rate has slowed. As in the 19th century, the best opportunities for high returns are seen to be in the developing world, probably in the east rather than in the west.

How big is the international capital market? There are various ways of measuring it, but a recent research paper from the London securities house NatWest Markets starts from the proposition that the total resources of the international financial institutions are of the order of $14,000bn.

Of these institutions the most important are those in the US, Japan and the UK. The degree of international diversification varies substantially, from 25 per cent for UK pension funds to about 5 per cent for their US counterparts.

UK funds are not changing their allocations much at present, and the US funds are at the centre of the stage. They are rapidly increasing their overseas investments, which on some expectations will eventually rise to the 10-12 per cent range. According to the US consultants InterSec Research the value of US tax-exempt assets with international mandates rose from $154bn to nearly $200bn in the first half of 1993.

Certainly, big flows are now being seen. The latest available figures, for the first quarter of 1993, show that American investors poured $22bn into overseas bonds and some $8bn into foreign equities, with an emphasis on Europe. On the other hand, Japanese institutions have been fairly quiet recently, whereas in the late 1980s they became huge buyers of international bonds, especially US Treasury securities.

There are three strands to this cross-border activity. The dominant motivation is a search for geographical diversification in developed countries, with global portfolio managers seeking a balanced exposure to the US, Europe and Japan.

Second, there is the desire for investors in mature economies to seek higher returns, albeit with more risk, in faster-growing areas. The movements of funds are comparatively small as a proportion of global cross-border flows, but in absolute terms, in the context of individual third world markets, the sums can loom large.

In the first quarter of this year US bond investors put almost $800m net into Mexico, for instance. As for equities, US funds allocated some $900m to the Hong Kong stock market in the three-month period, and were also net investors in Argentina, Brazil, Mexico and Korea to the extent of $200m or $300m in each case. Hong Kong now has a market capitalisation of about 1.6 per cent of the FT-Actuaries World Index.

Retail investors are also being drawn into so-called emerging markets funds which are being launched by more and more institutions – with a new one in the UK from Mercury Asset Management last month, for instance.

Such funds tend to emphasise the high growth rates of parts of the developing world. The MAM launch publicity quoted IMF forecasts that economic growth in the emerging markets will reach 6 per cent over the coming five years compared with a mere 2½ per cent in the developed world.

The third motivation for cross-border flows relates to tax or politics. For instance, a few years ago Japanese life assurance companies were being urged to buy vast quantities of US bonds to offset US-Japanese trade imbalances. A current example is the big flow of German retail savings into Luxembourg to escape withholding tax. Such flows can be substantial for a time, but usually prove temporary.

For the time being, the tide remains strongly in favour of internationalisation of the capital markets.

The message that capital can be better employed elsewhere is not one governments like to hear. Similarly, the ability of the free-wheeling markets to impose their judgments on the politicians can be resented. But the politicians are on the defensive and global investors have gained the upper hand.

Portfolio flows - net purchases of foreign securities ($bn)

	1989	1990	1991	1992
United States				
bonds	6.0	23.3	16.6	18.8
equities	13.1	8.3	31.1	32.4
Japan				
bonds	94.1	28.9	68.2	35.6
equities	17.9	6.5	3.6	-3.0
Germany				
bonds	25.0	14.8	14.5	42.3
equities	1.6	-0.3*	1.4	1.4
United Kingdom				
bonds	34.0	27.3	35.7	61.1
equities	24.1	0.9	21.5	-4.1*

*Net repatriation. Source: NatWest Securities

Net purchases of foreign stocks by US investors ($m) in first quarter of 1993

	Equities	Bonds
EUROPE	3,689	13,288
European Community	2,392	12,086
Belgium/Luxembourg	158	122
Denmark	(42)	109
France	117	660
Germany	204	15
Greece	10	(5)
Ireland	(112)	312
Italy	885	275
Netherlands	70	1,933
Portugal	(3)	(20)
Spain	102	342
UK	1,603	8,303
Switzerland	224	(176)
CANADA	1,291	5,982
LATIN AMERICA & CARIBBEAN	1,291	(1,514)
Argentina	213	
Brazil	331	
Mexico	291	796
ASIA	2,715	(456)
Hong Kong	929	
Japan	1,676	608
Korea	210	
OTHER	(749)	752
TOTAL ALL COUNTRIES	8,407	19,012

Source: US Treasury and Securities Industry Association

PUBLIC SECTOR

In retreat almost everywhere

*State-owned companies worth more than $300bn have been sold by some 50 countries since 1985. **Barry Riley** reviews the trend towards privatisation*

IT SEEMS very strange now in this triumphant era of privatisation, but some 50 years ago governments were eagerly *nationalising* important industries to ensure that the failures of capitalism in the 1930s would not be repeated. As recently as the early 1980s the French socialists were still nationalising substantial concerns. Public ownership would safeguard the public interest, they claimed.

Meanwhile, third world governments for much of the post-war era have seen the expropriation of the assets of multinational companies as a natural expression of their desire to assert economic as well as political independence. Such policies were especially rife during the 1960s and the early 1970s.

For a long while the Soviet Union and its many satellites provided a model for the nationalisers to follow: the model was flawed, of course, but at least it appeared to provide a viable alternative to western capitalism.

Today, however, the public sector is in retreat almost everywhere. The Economist recently calculated that state-owned companies worth more than $300bn have been sold off by some 50 countries since 1985. At least as much further privatisation is likely to take place by 2000.

It is happening all around the globe. Although the UK, which pioneered the process, has more or less reached the end of its "sell" list, other western European countries such as France and Italy have huge offerings on the stocks.

France, for instance, with a new conservative government in charge, has lined up the large bank BNP as its first candidate, to be sold within a few weeks, and the French Treasury hopes to receive upwards of $5bn for the government's 73 per cent stake. In fact, France has effectively raised $19bn in advance by selling "Balladur bonds" which can be converted into future privatisation stocks.

In eastern Europe the sums involved are comparatively tiny but the implications are much more profound. Remarkable strides are being made in privatising great chunks of the economies through a variety of methods including voucher schemes, mutual funds, management takeovers and sales to foreigners.

Latin America has become another highly active centre of privatisation. A bandwagon set in motion by Chile has been jumped on by Argentina, Peru, Colombia, Venezuela and others. The aim is to attract not only the US portfolio money which has been pouring into South America but also the local funk money which is being tempted back from overseas havens by more financially liberal regimes.

The privatised assets tend to fall into a limited number of categories. For instance, according to the investment bank Morgan Stanley 15 national telephone companies have been privatised since 1981 and another 30 are likely to be floated within the next three years. Oddly, though, France Telecom is not yet officially on the list.

Three clearly distinct motives are present in the global wave of privatisations. There is a simple desire to raise revenues, at a time when government coffers are often bare. The OECD expects that government fiscal deficits in Europe will top 6 per cent of GDP on average in 1993, because of the recession.

Issues running at some $70bn a year will significantly offset these revenue and spending imbalances. But there is a more direct economic motive, to lift the deadening influence of public control and allow the dynamism of private ownership to boost economic growth rates.

This search for a capitalist solution is evident in some of the developing countries where there is now a much greater openness to investment by multinationals, which are seen to be capable of bringing in capital and technology.

Sometimes these two motives are directly in conflict, as when state-owned monopolies are privatised. They would be worth more to a buyer if the monopoly were retained, but selling off a licence to print money would scarcely serve the objective of creating a competitive economy. Either the monopoly must be split to create several competitors or a regulatory body must be created to control the monopoly in the public interest.

Tricky labour market issues can also be highlighted by the process of privatisation. Often, in the past, an overt purpose of nationalisation and state ownership has been to safeguard jobs. Therefore it is common to find that new capitalist managers can find enormous scope for job-shedding.

This has been strongly evident in the UK, for instance, where British Telecom and the electricity generators have sharply reduced their workforces (although in BT's case changing technology may have played an important part).

Probably the worst political furore in the UK came in the wake of the privatisation of the electricity industry, for rather indirect reasons: the decision of the electricity bosses, newly freed from political constraints, to cut back on coal burning has had devastating knock-on implications for the coal mining industry.

The third important motive is to remove important industries from the constraints of state funding. Where attractive investment opportunities exist it can be damaging to the national economy if capital is withheld for budgetary reasons. Released into the private sector, companies can raise capital subject only to their ability to persuade investors that the terms are attractive.

But does privatisation work? There is plenty of evidence of success for the big western privatisations, but the battle is not entirely won in the developing countries.

China is, of course, a puzzle all of its own, with a communist government struggling to keep control of a burgeoning private sector. The Chinese economy is paradoxically performing much better than that of Russia, where the attempt to expand the private sector is apparently much more enthusiastic and coherent, but where some important ingredients, such as a flair for business, are presumably in short supply.

INFLATION

Down, but possibly not out

*Inflationary pressures are subdued across the developed world, but do not be fooled, says **Martin Wolf***

IS INFLATION a problem of the past? "Yes" is the answer given by the new conventional wisdom. It may be true for the moment. It may even be true for the next few years. It is too early to be confident it will be true for good.

Ever since the collapse of the gold standard, money has been subject to the discretionary management of the state, which has discharged this trust with remarkable incompetence or, worse, dishonesty. Consumer price indices show, for example, that the purchasing power of a 1933 pound had fallen to 3p by 1993, while that of the dollar had fallen to 9 cents.

This great inflation began in the second world war and reached its peak in the 1970s. In 1974 and again in 1980 the annual rate of inflation in OECD countries peaked at between 13 and 14 per cent. The most recent cyclical peak in OECD inflation, however, which occurred in 1990, was only 5.8 per cent. This does not mean inflation is over, but it does show it has at least become considerably less rapid than it had earlier been. This decline in inflation has been general in OECD countries, one reason being that the 1980s did not see a repetition of the oil price shocks that coincided with the peak inflation rates in the 1970s.

Yet, given last year's rate of about 4 per cent, it is impossible to argue that inflation in the industrial countries is definitively dead. Mr Alan Greenspan, chairman of the Federal Reserve, has argued that "price stability means that expected changes in the average price level are small enough and gradual enough that they do not materially enter business and household decisions". Given the difficulty of measuring quality improvements, this level is often taken to be 0-2 per cent. Some leading OECD countries have already achieved that, if in the depths of recession. But others – not only the US, Italy and the UK, but even Germany – have not, or at least not yet.

Even if inflation is not conquered, it is at least lower than for decades. One question is why this has happened. Inflation is a monetary phenomenon. There is no better explanation for it than that of "too much money chasing too few goods". The proximate cause of current relatively low rates of inflation, by the standards of the 1950s and 1960s, has been relatively disciplined monetary policy and, in an era of high real interest rates, greater willingness of investors to hold money in idle balances, rather than spend it.

These monetary roots of current low inflation also give cause for optimism about inflation in the medium term. In a modern economy money is created less by governments than by banks. So weakened and frightened have banks become by their mistakes in the 1980s that they are not prepared to expand their balance sheets. This is now evident in countries as varied as the US, Japan, the UK and Australia as well as those of Scandinavia. At present, in fact, the only leading country worried by how rapidly broad money is growing is, amazingly, Germany.

Another reason for optimism, it is argued, is the emergence of new low cost competition, particularly in east Asia. This development is similar in its effects to an increase in the rate of domestic productivity growth and should reduce inflation if other things remain equal. But inflation can still accelerate if the rate of increase in domestic nominal costs, particularly wages, accelerates. Domestic monetary conditions are what determine that.

Given current monetary conditions, the medium term chances of continued modest inflation look good in almost all leading industrial countries. But what about the longer term? In the end, after all, economies will recover, banks will restore their capital base and borrowers will regain their courage. The monetary policies that cause inflation reflect political forces. Whether or not inflation will remain low depends ultimately on whether it has ceased to be convenient for governments.

People go to jail for using fraudulent weights and measures. Governments try to buy elections by doing the same thing – undermining the value of the currency by printing more. The reason they do so is that while some voters lose, many benefit from the extra tax revenue that the fraud produces: unanticipated inflation is a way of achieving covertly what governments could not have legislated overtly. But this "inflation tax" works only when inflation is unanticipated, and a given rate of inflation is unlikely to remain unanticipated forever. So the "tax" works if the government continues to push inflation higher than people were expecting.

In the 1950s and 1960s, unanticipated inflation was a part of the mechanism that delivered on the political commitment to "full employment". But the commodity price increases of the 1970s brought this process – and the commitment to full employment – to an end, since no politically acceptable level of inflation could secure the required reduction in real wages.

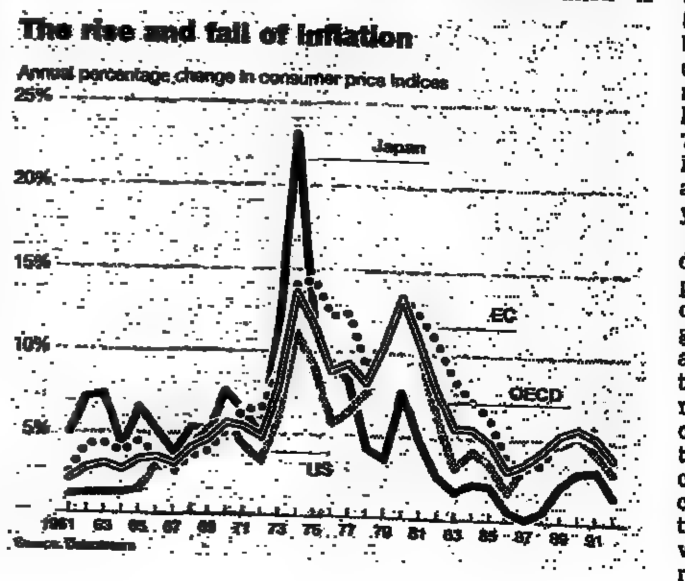
A cogent argument for optimism about the long-term rate of inflation is that the benefits of inflation to policymakers are now much smaller than in the 1960s and 1970s, its victims are better able to protect themselves and its beneficiaries are also politically weaker. Meanwhile, potential victims either lend short or demand high long-term nominal interest rates in relation to current inflation. Policymakers know they are permanently on trial and, lacking exchange controls, face immediate penalties if they are condemned.

Nevertheless, there are also four good reasons for fearing that high inflation might be politically attractive one day. First, managed money has never delivered stable prices, or even stable low inflation, over any long period. Second, each year of relatively modest inflation lulls the public further, thereby increasing the redistributive effects of another burst of inflation. Given the UK's current rate of issuance of long-term gilts with coupons of 7 per cent, for example, higher inflation might well become attractive once more, as the year 2000 approaches.

Third, there are plenty of debtors who would adore higher prices. Finally, among those debtors are almost all leading governments, whose accounts are bleeding red ink. The abolition of exchange controls may make it costly for a country to choose inflation on its own. But there is always the alternative of global inflation, euphemistically labelled "concerted reflation". Buyers of long-dated conventional bonds should remember and beware.

The rise and fall of inflation

Annual percentage change in consumer price indices



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FOREIGN DIRECT INVESTMENT

Era of the multinationals

The development of communications and a change in political climate is altering the face of global manufacturing, writes ***Tony Jackson***

DIRECT investment by multinational corporations is becoming a hugely important force in the world economy. A recent study from the United Nations estimated that multinationals now control a third of the world's private productive assets. Their stock of foreign investments is now worth $2,000bn. The turnover generated by these assets in 1992 was bigger than total world exports. In other words, direct investment abroad is now a bigger economic force than world trade.

Although investment worldwide has dropped sharply from its peak in 1990, it seems likely that the upward trend will resume. As the UN report points out, growth in foreign direct investment in the past couple of decades has averaged 13 per cent a year. In the period 1986-90 the rate was 28 per cent. That brief and unsustainable spurt was due partly to the economic boom of the late 1980s, partly to one-off changes such as the introduction of the European single market.

The underlying arguments for growth in foreign direct investment remain unchanged. In essence, a combination of factors, such as the development of global communications and a change in the political climate towards multinationals, is bringing in an era of true global manufacturing.

A company such as Siemens, the German electronics giant, may now start making a product in Germany, where precision and automation are required, then ship it to Malaysia for the labour-intensive final stages of manufacture. At the same time, much of its software research is undertaken in India, which has an abundant supply of cheap computing talent.

Foreign direct investment is also proving an important force in the integration of national economies. Ford is developing its "world car", known as the Mondeo in Europe and to be sold in North America next year as Ford Contour and Mercury Mystique. Components such as engines and transmissions for the car will be made at single locations and shipped worldwide.

In semiconductors, Siemens, IBM and Toshiba have formed an alliance to develop the next generation of memory chip. The chip will be supplied to the world market from a single factory, in a country yet to be determined.

As the UN report argues, such integration is also important at the regional level. The strategy by Japanese companies of locating production in cheaper Far Eastern countries such as Thailand and Malaysia has done much to integrate the economies of the region. US companies were setting up production in Mexico, for similar reasons, before negotiations on the North American Free Trade Agreement had even started.

There is an important distinction to be made between the kind of integration based on trade, which is relatively simple, and the far more complex links involved in global manufacturing. The report says that "as integration moves from shallow trade-based linkages to deep international production-based linkages under the common governance (of multinationals), the traditional division between integration at the corporate and country levels begins to break down".

As a result, the multinationals "encroach on areas over which sovereignty and responsibilities have traditionally been reserved for national governments. This raises new issues of direct concern to the formation of national laws and regulations".

Foreign direct investment tends to transfer assets from the developed world to the developing world. But the pattern is not entirely simple. Last year, of a total of $126bn in foreign direct investment worldwide, $40bn – 32 per cent – went to developing countries. This represents an advance on the 26 per cent going to developing countries in the period 1981-85, but the change is not dramatic.

In part, this is accounted for by the fact that big shifts have occurred in the composition of foreign direct investment by sector. Increasingly, investment is going into services and high-tech manufacture, rather than basic manufacture and natural resources. As might be expected, foreign direct investment in the developed world is mostly in the former category, whereas in the developing world the emphasis is on the latter. Increasingly, it seems, countries have to reach a basic level of sophistication before they can get in on the act.

This is borne out by the fact that last year, the $40bn of foreign direct investment going to developing countries was spent almost wholly in two regions: east, south and south-east Asia got $21bn, while Latin America and the Caribbean got $15bn. The whole of Africa got a pitiful $2bn, while the sum invested in the least developed countries was too small to measure.

Changing this pattern may prove a long job. Simple cash incentives to get production in a country have little effect, other than on the margin. As any international businessman will tell you, if that is the best reason for going to a country you had better not go at all. In addition, the increasing sophistication of global production means that cheap labour is often not a deciding factor either.

What companies often look for is threefold: a skilled local workforce, good infrastructure (especially telecommunications) and a welcoming attitude by government. Acquiring the first two is a long haul. But at least, something can be done about the third.

The dangers of antagonising international investors can be illustrated by the case of an economy as sophisticated as that of South Korea which has a real need for inward investment primarily as a means of getting hold of technology. But a streak of xenophobia in the Korean character shades into downright antagonism when it comes to their former colonial masters, the Japanese. Korea traditionally has made things awkward for foreigners in terms of its financial system, its real estate laws and so forth.

Last year, Korea saw a net outflow of foreign direct investment, a fact which seems to have brought the government to its senses. A concerted attempt is now being made to be nicer to foreigners.

Whether it will reverse the damage remains to be seen. Across the world, the days when it paid to revile the multinationals are long gone. Like it or not, too much depends on them.

Components for Ford's "world car" will be made at single locations and shipped worldwide

INVESTMENT INSTITUTIONS

More power to capital markets

The amount of money sloshing around the world's financial system is so vast governments seem almost powerless to resist it, writes ***Philip Coggan***

THE ABILITY of international capital markets to embarrass governments was demonstrated in September 1992 and August 1993, when speculative attacks twice caused turmoil in the European Exchange Rate Mechanism.

The amount of money sloshing around the world's financial system is so vast that governments seem almost powerless to resist it – they might as well attempt to repeal the laws of gravity.

To give a few examples:

- Net daily foreign exchange turnover last year was about $1,000bn, compared with central bank reserves which were estimated at $555.6bn in April 1992.
- Turnover in the Eurobond market reached more than $7,000bn in 1992, according to the International Securities Market Association.
- The World Bank has estimated that global institutional investment funds are worth $14,000bn.
- In a report on capital flows, the International Monetary Fund stated that cross-border equity holdings in the US, Europe and Japan increased from $800bn in 1986 to $1,300bn in 1991.

Cross-border investment may have a lot more scope for growth. Restrictions on foreign investment by domestic institutions – pension funds, insurance companies, unit trusts or mutual funds and the like – are being eased round the world. The relaxation of rules covering occupational pension plans in Switzerland means that funds can now invest up to 25 per cent in foreign stocks and up to 30 per cent in all investments denominated in foreign currencies.

The US institutions are still well behind Europe in the extent of their portfolio diversification. It is estimated that European institutions now invest about 20 per cent of their assets overseas; in the US, the proportion is only around 7 per cent.

A survey by Greenwich Associates found that $31bn was invested in international stock markets by US pension funds in 1992. But corporate and public pension funds planned to invest a further $100bn in foreign stocks over the next five years.

Pension funds are, of course, only part of the US institutional investment community. According to UBS Global Research, a record $26.6bn was invested in foreign bonds and equities by US institutions in the first quarter of 1993, compared with $17.4bn in the last quarter of 1992.

These funds are controlled by professional managers who are well aware of the need to produce good performance to retain their management contracts. They will thus be quick to exploit any profitable opportunities – such as an expected currency devaluation – or to desert a stock market if they feel government policy has moved in an uncongenial direction. Conversely, domestic markets can surge if international fund managers decide to increase their country allocation by a couple of percentage points or so.

A classic example of a country's economic policy being set with financial markets in mind is that of France in the early 1990s, where interest rates have been kept high to support the franc, in the face of the belief of many economic commentators that substantial interest rate cuts were needed to prevent a drastic recession.

Not only is cross-border investment likely to grow, but the funds available for investment are also expected to increase. As the population of the developed world ages, it will need to save more and more to provide for its pensioners. By 2010, for example, around 18 per cent of the Japanese population is expected to be 65 or older, compared with 11 per cent in 1990. Pension fund assets are expected to grow from Y150,000bn in 1990 to Y250,000bn by the year 2000, according to the Japanese Pension Fund Association.

A further development is the readiness of many more economies to welcome the influx of foreign capital. Financial liberalisation measures in Latin America and south-east Asia have helped make "emerging markets" investment the flavour of the moment in the fund management industry.

European institutions invest about 20 per cent of their assets overseas

The argument in favour of emerging markets is relatively simple. Their economies are growing that much faster than those in the developed world, and as they embrace capitalism, the prospects for growth in corporate profits are that much greater.

Emerging markets still form only a tiny part of institutional portfolios, but that in itself can be cited as a bullish argument. World Bank figures suggest there are around 135 emerging markets – the countries concerned have 80 per cent of the world's population but just 12 per cent of its GDP and 6 per cent of its stock market capitalisation. As institutions increase investments in the area, so the theory goes, the "weight of money" will boost share prices. Japan was once an emerging market, after all.

Certainly, money has started to flow into the emerging markets. In Latin America, equity portfolio inflows increased from £435m in 1989 to $5.6bn in 1992. A Micropal survey of emerging market investment managers found that Mexico was the market of main choice, followed by Malaysia, Brazil, Thailand and Hong Kong.

Individually, these markets may be volatile but collectively, fund managers believe a diversified portfolio can offer enhanced rewards, since stock market returns do not appear to be correlated – there would seem to be no reason why the Malaysian market should move in the same direction as the Brazilian.

Once such countries have become dependent on foreign capital, they may find their economic policies constrained by the need to keep international investors sweet. The power of international investment institutions will have increased once more.

WORLD BANKING

Convalescence under way

John Gapper suggests the long-term prognosis may not be good

BRIAN PEARSE, chief executive of the UK's Midland Bank, likens banks to the victims of a car accident. "As you come out of it, you not only have to recover your poise, but learn some new tricks as well," he says. The convalescence from the accident of asset quality problems in the 1980s is well under way.

But while the health of the patient is better than at any time in the past five years, the long-term prognosis may not be good. The recovery of the banking systems in the US and Europe has not gainsaid questions whether banks have a permanent role as lending institutions for corporate customers.

The accident that befell banks in the 1980s followed the deregulation of financial systems in the US and Europe, and asset price inflation in the late 1980s. Banks competed for growth by cutting margins – notably in big corporate lending – only to be hit by recession across OECD economies.

US banks were first to recover strongly, helped by a strong positive yield curve that allowed banks to rebuild capital by holding treasury assets. Tier one ratios of core capital to risk-weighted assets are now commonly one or two percentage points above the 6 per cent "well-capitalised" level.

However, this has been followed by a series of resurgences in European banking systems as bad debt provisions and write-offs have fallen. The virtual break-up of the European exchange rate mechanism has both helped ease asset quality problems, and boosted banks' trading profits.

British banks, whose problems were epitomised by the loss of £242m in 1992 recorded by the biggest bank Barclays, have started rebuilding capital by retaining earnings in spite of continued weak demand for loans. They are expected to keep increasing profits up to 1996 on a cyclical upswing.

German and Swiss banks have also reported sharply improved results. The most remarkable recovery story has emerged in the past few months in Scandinavia. Nordic banks such as SE-Banken have declared that they do not require government support, and can instead raise fresh capital from rights issues.

Japanese banks are later in the cycle than European, and are still dealing with asset problems from the aftermath of the "bubble economy". This has led to a substantial retreat from international syndicated lending in which big Japanese banks participated aggressively during the 1980s.

The strongest profits from traditional banking in the year have come from Asia. A boom in Pacific Rim economies, together with the absence of strong debt markets as an alternative to borrowing from banks, has created large profits for banking groups such as HSBC Holdings.

But while the environment may be safer, it does not offer the strong lending growth that has followed past recessions. This is partly because of risk management controls to ensure they do not repeat mistakes, and partly because demand is weak.

Improved risk management has become a fundamental concern for banks as they try to allocate capital to the activities that not only appear to be profitable, but make sufficient returns to offset credit losses during downturns. This has led to re-examination of some lending activities.

Among the "new tricks" to which Mr Pearse – whose bank was acquired by HSBC Holdings last year – refers is the attempt to build earnings from non-lending activities. For corporate banks, this means trading and advisory work, and for retail banks it means selling insurance and savings.

Caution about lending is partly because banks do not want to lend again at margins that do not reflect true risks. But it also stems from the desire to conserve capital. Regulators and equity markets are both placing increasing emphasis on banks having strong enough capital to absorb risk.

Mr Roberto Mendoza, a vice-chairman of JP Morgan, argues that banks increasingly depend on strong capital to increase returns because it helps attract business. "Counter-intuitive though it may be, return on equity in financial companies tends to rise the more capital you have," he says. The increased emphasis on returns on capital achieved from various businesses has already led to banks retreating from ineffective overseas operations. It is now placing strains on European "universal" banks that have diverse businesses. They may gradually be forced to concentrate on niche areas.

The need to maintain capital is particularly acute for corporate banks because those without strong capital can in effect be barred from trading instruments such as financial derivatives. Yet such trading is required to raise profits because lending margins are too narrow alone.

Brian Pearse: you have to learn new tricks

"The low return from corporate lending is a big problem for commercial banks with investment banking pretensions," says Mr David Band, chief executive of Barclays' securities arm BZW. But although there has been some revival in syndicated loans, many companies have looked elsewhere for finance.

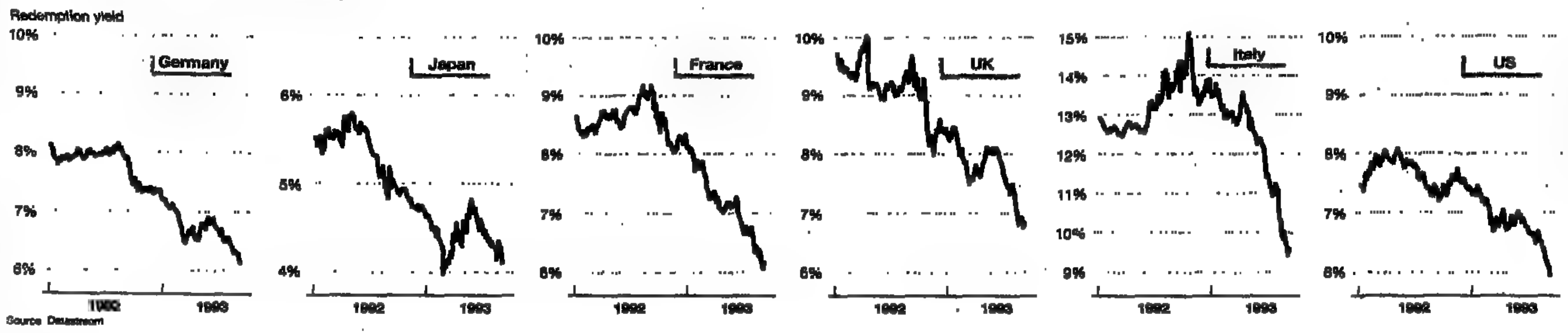
The surge in bond markets because of falling interest rates has stimulated the trend towards the "disintermediation" of corporate financial services. Companies with better credit ratings than banks and fewer overheads can raise money on capital markets more cheaply.

That trend is long-established, but banks' retail business is also being undercut by consumer finance companies. US banks have competed successfully in the buoyant mutual fund market this year, but consumers' increasing access to credit and investments from other companies may squeeze banks.

These developments have led Alan Greenspan, chairman of the Federal Reserve, to express concern about banks' future in the US financial system. The boundary between banks and other companies offering financial services is being weakened by banks' diversifications away from lending.

Yet the paradox is that such worries are being expressed at a time when banks are as healthy as they have been for half a decade and shares have been rallying. Decisions made in the next five years on how to use their newfound capital will determine the patient's long-term health.

10-year bond market rally



BONDS

An unprecedented bull run

The US and Japanese markets have proved they can defy gravity, says Tracy Corrigan

THE economic slowdown which has cast a pall over OECD countries has had at least one beneficiary: for the past three years, the world's bond markets have enjoyed an unprecedented bull run, which has already outlasted most analysts' expectations.

Bad economic news spells good news for bond markets because it encourages governments to lower short-term interest rates, in turn forcing down bond yields, in an effort to revive economic growth. At the same time, economic recession drags down inflation, which means that real yields become more attractive to investors and underpin the long end of the market.

The main reason for the continuing optimism over bond market performance is that the outlook for inflation has changed dramatically. Traditionally, bond markets have performed well during economic recession, and then weakened as economic conditions improved.

That cycle may now have been broken. "US bond yields are still falling, 10 quarters into a recovery, and conditions here (in Europe) are going to be rougher if anything," said Mr Phillip Saunders, fixed interest investment director at Guinness Flight.

The UK has also officially emerged from recession, yet there are expectations that not only long-term bond yields but also short-term interest rates have somewhat further to fall.

"There has been a marked change in investment psychology," said Mr George Magnus, international economist at SG Warburg. "There is always a cyclical decline in inflation, which is usually short-lived. This time round, low rates of inflation will persist." He cites a number of factors, such as lack of employment opportunities and competition from rapidly growing Asian economies which will contribute to low inflation growth among developed countries.

This has increased the scope for bond yields to fall, since low inflation has enhanced real yields (yields with inflation stripped out).

Nevertheless, investors may not be keen to buy bonds at such historically low yields. "You can't draw forecasts with a ruler," warned one fund manager. "We are in uncharted territory, and that makes everyone very nervous."

Investors are struggling to come to terms with the implications of lower yields. Some investors, such as yield-hungry US insurance companies, take on greater credit risk to enhance yields, for example by buying bonds issued by Latin American borrowers, or by poorly-rated companies. More commonly, investors have tended to extend the maturity of their bond investments, to benefit from the steep yield curves created by cuts in short-term rates.

Initially, the US yield curve, for example, steepened dramatically because of the speed with which the authorities cut rates.

More recently, however, there has been a flattening of the yield curve. In part, this is because very low money market rates make it cheap to fund positions at the longer end of the market.

For traders, a long position in German bonds has to outperform substantially a long position in US bonds because the cost of funding the German bond position is substantially higher. As a result, the longer end of the US market has rallied, causing a flattening of the yield curve.

The same pattern has already been seen, albeit less dramatically in the UK and is expected to follow in Europe.

Some analysts believe that investors will simply have to adjust their expectations, since returns on stock as well as bond markets are likely to fall short of the levels seen in the 1980s, as economic growth in OECD countries is likely to remain low.

However, they point out that, in a historical context, real yields are not particularly low.

In the US, for example, with inflation at 2.8 per cent, a 6 per cent long bond yield offers a real yield of 3.2 per cent, which appears paltry compared with the average real yield of 6.2 per cent in the 1980s, but looks more favourable against a 2.6 per cent average in the 1960s and a 1.3 per cent average in the 1970s.

Nevertheless, there is a growing sense that the US bond market rally cannot have much further to go, and the conviction that at present levels the market does not offer "good value" relative to other markets.

The only problem is that analysts have been predicting the end of the US Treasury market rally since at least the start of the year.

In Japan, although the lack of any sign of inflationary pressure will continue to buoy the market, there is a sense any further rate cuts are well discounted and the market will get little further lift from arriving at its goal. Indeed, with 10-year yields at around 4 per cent, it is hard to argue for further substantial yield declines.

Both markets have already proved they can defy gravity, and may well do so again. Nevertheless most fund managers believe that European bond markets, which are heading for some substantial cuts in rates, still offer the best value, and are tending to adopt overweight positions in these markets.

Italian and Spanish bonds have benefited most dramatically from the break-down of the ERM: Italian 10-year bond yields have already fallen from 12¼ per cent in June to 9½ per cent in September.

EQUITIES

Hunt is on for better returns

The Continent is finding favour with investors as the United States and UK stock markets lose their bloom, reports Tracy Corrigan

IN SPITE OF expectations of only sluggish economic growth in OECD countries, stock markets have been booming this year, with record highs for the UK's FT-SE index and the US Dow Jones Industrial average.

Low interest rates are expected to fuel further stock market gains, as developed economies emerge from recession. In addition, the current low interest rate environment has encouraged investors to favour stock markets, switching out of bonds and money markets in search of better returns.

"Anyone looking for strong GDP growth in Europe in the next 12 months is likely to be disappointed, but that is not to say that the combined effects of lower interest rates, weaker currencies against the US dollar, and, in particular, restructuring of European industry, cannot produce big gains in corporate profits and a continuation of the shift towards cyclical stocks", argues Mr Richard Davidson, an economist at Morgan Stanley International.

In Europe, financial stocks, the first to benefit from lower interest rates, have already rallied strongly, up 41.9 per cent in Europe since the start of the year. But cyclical stocks, after three years of underperformance have also bounced back by 30 per cent since the start of the year. Consumer stocks on the other hand have risen just 3.5 per cent since the start of the year.

"Cyclicals in Europe are back in fashion and, as might be expected, the rubbish has risen with the tide, on expectations of reduced debt problems and exponential growth in earnings per share next year," reports Mr Davidson.

Ms Sophie Blancpain, European equity strategist at Credit Suisse First Boston, believes that Europe is "the hot place to be." She argues that the US stock market cycle is two years ahead of Europe, since real interest rates have already fallen to very low levels. Real rates in Europe on the other hand still average around five per cent, ranging from an extreme of around 10 per cent in Denmark to just 2 per cent in Germany.

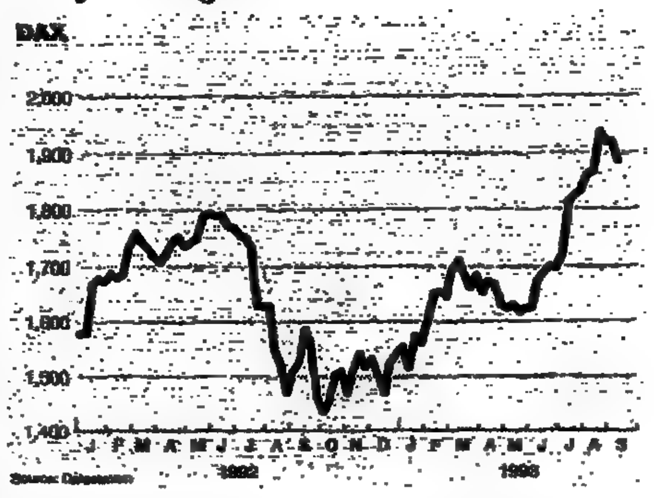
When real interest rates available on bank accounts fall below dividend yields, there is a clear incentive for investors to take the additional risk of buying stocks. With average dividend yields ranging from 4¼ per cent in Spain to about 2 per cent in Germany, that stage is not far off.

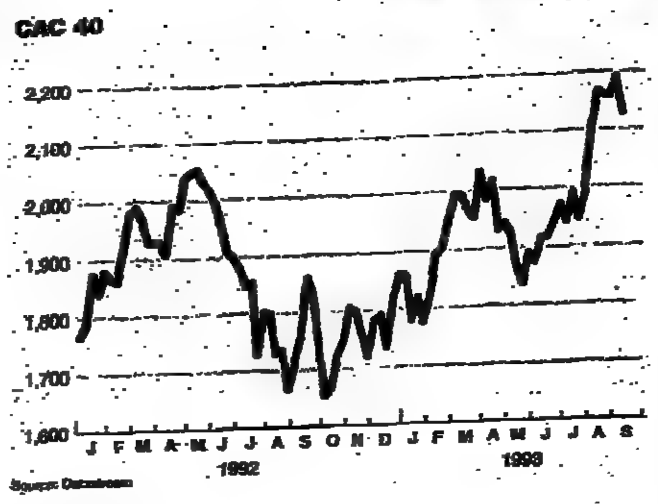
Although the prospects for dividend growth remain muted, as companies rebuild their balance sheets, many analysts believe that there is room for a pick-up in earnings, despite low economic growth.

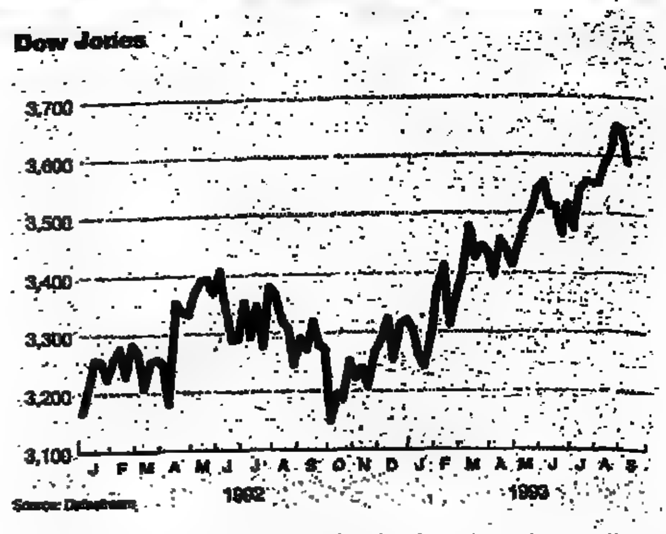
Continental Europe has outperformed the US and UK so far this year

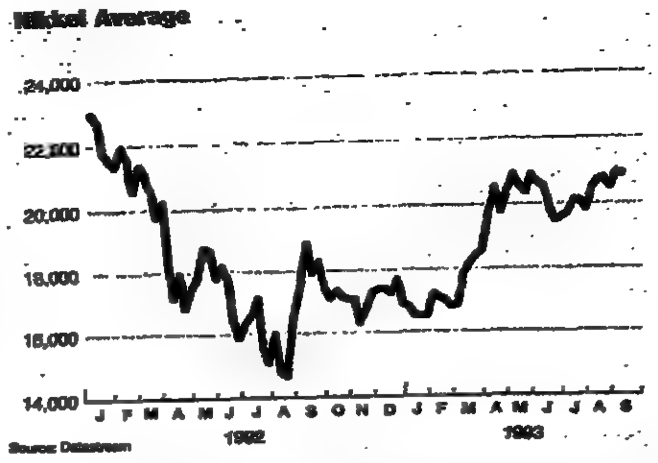
"One of the positive aspects of Europe is that there will be a cyclical rally, due to re-evaluation as [European economies] come out of recession," said Ms Blancpain. She expects to see "a better performance than growth expectations suggest. They have the potential to show earnings growth through restructuring." The restructuring of European companies, many of which are currently less competitive than their US counterparts, is already under way, helped by labour reforms, she believes.

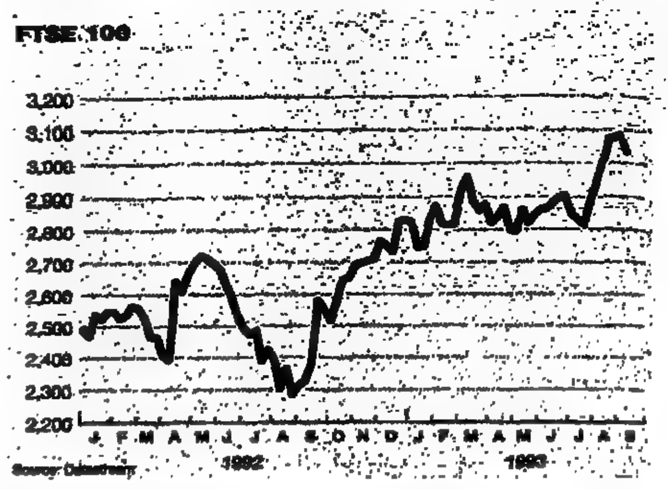
In fact, continental Europe has already outperformed the US and UK so far this year. Although the UK and US markets have hit the headlines by reaching record highs, they have actually offered relatively low returns: 7.7 per cent for the US and 10.5 per cent for the UK, compared with 25.9 per cent for Germany, and over 40 per cent in local currency terms for Sweden, Italy and Spain, according to figures from Salomon Brothers International. "The FT-SE may have breached the 3000 mark, but it is the second worst performer" of the 10 leading stock markets tracked by Salomon Brothers, according to international equity strategist Mr Marcus Grubb.











The Japanese market, which is still viewed as sick since it is still 48 per cent off its highs, has also performed well this year, and is up 24.5 per cent.

The prospect of further cuts to already low Japanese rates is helping to fuel renewed interest in the market. "The government is more concerned about recession than inflation," said Mr Philip Wostencroft, an equity strategist at Smith New Court, who expects further easing of rates this year. However, he admits that price/earnings ratios are very high in Japan, because earnings have been marked down by recession.

High price/earnings ratios – 24 times in Germany and 22 times in France – are also a cause of concern in Europe. Chartists are beginning to worry that high p/e ratios, given the relatively poor growth prospects, could mean that markets are heading for a crash.

However, Mr Grubb argues that p/e ratios are not currently a good indicator of value, partly because earnings are cyclically depressed.

His argument is that the current outlook of low inflation, low interest rates and low economic growth is actually positive for stock markets, as in the UK in the 1960s.

He believes that the flow of cash into equity markets caused by low interest rates has only just started and will buoy the market for some time to come.

"A lot of people looking at past levels of earnings and economic growth are concerned about the current level of stock market valuation. They forget that there is a cycle of asset class rotation," said Mr Grubb. "Relative to earnings, profits and growth, equities are expensive; but relative to cash and bonds, they are cheap.

However, within this context, most analysts favour continental Europe, suggesting a broad consensus that the US and UK have lost their bloom. "As the US and UK economies went into the pit of recession in 1990, their stock markets performed well, because the green shoots of recovery were priced in very early. The same thing is happening in Germany now," believes Mr Grubb.

There has also been growing interest in emerging markets in Asia and Latin America, where economic growth is running well ahead of the developed countries.

DERIVATIVES

Volume rises to record levels

Tracy Corrigan on the growth in the use of these complex financial instruments

VOLATILE market conditions have helped boost volume in the world's futures markets to record levels this year.

Turmoil in the foreign exchange markets, as currencies within the European exchange rate mechanism came under repeated pressure during the past 18 months, has encouraged greater use of derivative products among speculators, for whom volatility represents an investment opportunity, and among companies and institutions persuaded by the swings in the markets of the need to hedge their exposure.

The proliferation of these complex financial instruments has attracted the unwanted attentions of regulators, particularly in the US, who fear that the level of systemic risk is growing as a result.

However, this year the pressure has eased following a series of reports, for example by the Bank of England, which have adopted a more conciliatory approach towards the derivatives industry. The derivatives market divides into two distinct parts: the over-the-counter market in swaps and options which consists of specially tailored, but often illiquid, instruments created by banks and sold directly to companies and financial institutions; and the highly liquid market in homogeneous futures and options contracts traded and cleared through exchanges.

The growth in over-the-counter business has fuelled growth in the futures market – although exchanges have tended to view the growth of OTC business with some suspicion. Banks active in the OTC market use liquid contracts traded on exchanges such as the Chicago Board of Trade and the London International Financial Futures and Options Exchange to lay off their risk.

Futures exchanges have a number of advantages over the OTC market: they generally offer greater speed, at lower cost. In addition, institutions dealing on an exchange do not take on credit exposure to a counterparty, since contracts are settled through a central clearing house.

However, many users prefer to buy products in the OTC market which are specially tailored to suit their individual needs. But the line between these two markets is becoming increasingly blurred, as exchanges try to emulate the flexibility of OTC products, and banks consider ways of replicating the clearing mechanisms of exchanges.

Futures markets have grown fast in the last decade

The expansion of the world's futures markets has transformed the way financial markets function. Ten years ago there were only a handful of exchanges and a few liquid contracts; now, it is hard to think of any developed cash market which does not have an active futures market attached to it. More than that, futures markets have become more than an appendage of the cash market: frequently, the tail wags the dog.

The idea that futures markets drive cash markets can appear disconcerting, or even worrying – for example, some regulators have tried to pin the blame for the stock market crash of 1987 on futures traders. The dominance of futures over cash market trading is partly due to their greater liquidity: volume in S & P futures on the Chicago Mercantile Exchange, for example, is nearly twice the turnover in the underlying stocks.

But in many cases futures trading has helped boost liquidity in the underlying cash market. For example, institutional investors are more likely to buy foreign stocks if they know they can hedge or adjust their positions using derivative instruments.

Futures also demand a smaller outlay than the cash market and allow traders to express more complex market views – for example, to position themselves to gain from a falling market, or from the narrowing of a margin between two markets.

Futures markets have grown fast in the last decade, particularly in Europe, where the market only started 10 years ago. According to a recent report by the Group of 30, the Washington-based think-tank, the notional amount of futures traded every year is $140,000bn. The volume in the OTC market is much smaller, at around $4,000bn.

However, regulatory concerns centre on the OTC market, both because of the intrinsically greater credit risk, and the larger amount of contracts outstanding: G30 estimates notional outstandings of $4,500bn in the OTC market compared with just $1,000bn in the futures market.

The growth of the swaps and futures markets has consistently surpassed expectations for the past 10 years, and there is some doubt about how much longer such growth rates – still around 40 per cent annually at European exchanges – can be maintained. In particular, many market participants say the US market has now reached maturity in a number of areas.

In the exchange-traded market, growth has been supported in part by the steady addition of new products – Italian bond futures, and short-term German interest rates, for example. The array of products available on principal markets now appears virtually complete. Attempts at innovation in new areas – such as insurance futures and swap futures in Chicago – have yet to flourish.

While there is no shortage of innovative ideas, it seems difficult to spur further growth in volume from the creation of new products.

Volume on international futures and options exchanges

	Number of contracts traded Jan-Dec 1991	Jan-Dec 1992
Chicago Board of Trade	139,437,140	150,030,460
Chicago Mercantile Exchange	108,128,504	134,233,555
Liffe, UK	38,583,877	71,977,025
Matif, France	36,978,988	55,474,238
New York Mercantile Exchange	40,788,714	47,212,417
BM&F, Brazil	18,768,564	35,072,146
DTB, Germany	15,369,730	34,842,778
London Metal Exchange	16,937,909	24,738,920
Osaka Securities Exchange	33,478,949	21,184,310
Sydney Futures Exchange	12,496,018	17,557,685
Stockholm Options Exchange	13,442,850	17,147,096
Tokyo Intl Financial Futures Exchange	15,149,104	15,540,487
Tokyo Stock Exchange	16,601,699	14,538,717
Tokyo Comm Exchange Industry	14,949,199	13,585,379
Commodity Exchange, Inc	15,123,655	12,673,179
Tokyo Grain Exchange	9,899,883	12,416,671
Simex, Singapore	8,068,044	12,180,174
Intl Petroleum Exchange, UK	8,412,589	10,674,803
Coffee, Sugar & Cocoa Exchange	9,494,734	8,275,706
Soffex, Switzerland	6,971,740	9,258,856
Osaka Grain Exchange	4,123,743	5,441,392
European Options Exch, Amsterdam	3,469,945	3,856,247

Source: Futures Industry Association (provided by exchanges); excludes individual equity options

BANKING SUPERVISION

The focus shifts from fraud

John Gapper looks at the new challenges facing supervisors

JUST as the past five years have proved a turbulent period for banks, in much the same way supervisors have also faced a generous share of challenges.

The effects of the biggest upsets – crises of state banking systems in the US, and the closure of the Bank of Credit and Commerce International – are still being felt.

Yet, the fact that the main subject to be discussed by international bank supervisors at the IMF/World Bank meetings will be derivative financial products, rather than fraud or loan quality, indicates that they are gradually turning their attention to future rather than past challenges.

The $4 trillion over-the-counter swaps and options market from which banks and securities houses have gained large profits this year exercise supervisors for obvious reasons. There has not yet been a mishap, but the extent of risk is unknown, and derivatives link many financial markets.

The problem for bank supervisors is that derivatives are being used by a growing number of companies to hedge their risks. Some risks may simply be eliminated, but others are being taken on by banks. This raises the possibility of the supervisor's worst fear: systemic financial failure.

The difficulty for supervisors is twofold. They must assess the systemic risk, and ensure that banks control individual risks. Despite the optimistic tone of the recent G30 report on derivatives, Federal Reserve supervisors in particular have expressed doubts whether banks are wholly in control.

The increasing use of derivatives has led to more weight being placed on the capital strength of banks that take on counterparty risk. That builds on a trend established by the Bank for International Settlements in 1988 when it laid down minimum capital adequacy standards for credit risk.

Work is still under way by the Basle committee on banking supervision to establish the amount of capital which banks will have to set aside against risks in foreign exchange, securities and derivatives trading. That could add up to a percentage point to the capital held against risk-weighted assets.

The protection of the world financial system is the motive offered for such work. But the other reason is the pressure to establish a level playing field between regulatory regimes. There is pressure to level regimes among countries and among financial institutions.

The development of a single European market is one factor stimulating harmonisation across borders. A series of EC banking directives will take effect in the next few years, one of the most important being the large exposures directive that could limit some underwriting exposures.

However, the BCCI collapse has thrown up tricky problems in harmonising regulation across borders. One is the difficulty of matching standards of who is a fit and proper person to run a bank; the second is the fact that countries have different laws on claims on insolvent banks.

The directors of BCCI were clearly not fit to run a bank in hindsight. But drawing up common definitions of competence and probity to apply in different countries with widely varying financial customs is a stiff task. Basle supervisors are now trying to do so, with modest expectations of success.

The BCCI collapse has thrown up problems in harmonising regulations

The second problem is that US law regards the parts of an insolvent bank within its borders as separate entities from the core of the bank in another country. This means that US creditors are regarded as having separate claims on the US assets and overseas assets of a bank such as BCCI.

European countries, including Britain, treat cross-border insolvent banks as single entities into which all assets are pooled for distribution to creditors. If different countries regard their creditors as having varying rights, this will undermine attempts to harmonise supervision.

Apart from these obstacles to cross-border harmonisation, US banks in particular complain that they are hindered by stricter burdens of regulation than other companies. They also chafe at the lack of regulation of institutions such as GE Capital and AT&T, which offer financial services.

Discontent at unevenness between the strict supervision of banks and at lack of control over other types of company offering financial services is likely to grow in Europe. This will, in turn, increase the pressure on banking supervisors to justify their activities, and the way they restrict banks.

Together with the troubles of national banking systems, and debates about the monetary independence of central banks, this has contributed to questions over whether central banks should combine depositor protection and supervision, or even whether they should carry out the latter.

The Federal Reserve has faced criticism from Congress over its supervisory role and calls have been made for it to be hived off; the Bank of England's competence as a supervisor has been attacked over BCCI; in New Zealand, there has been a move to replace supervision with stricter financial disclosure.

In contrast, Scandinavian countries have moved to put bank supervision back under the control of central banks rather than separating it under commissions following the region's banking crisis. Central banks are now seen as more reliable observers of systemic risk in the financial system.

The new thrust of concern on market rather than credit risk may help central banks to retain supervisory powers because of their oversight of financial systems. But it could also lead to more calls for banking and securities regulation to be harmonised under a single supervisory structure.

The barriers to achieving such an aim were illustrated in May when the Basle committee published separate proposals on allocating capital to market risks because it had failed to agree common standards with securities regulators under the International Organisation of Securities Commissions.

All this suggests banking supervision may have emerged from crises of credit risk and fraud in the past five years only to face more complex tasks. The rise in the range of products traded on financial markets means supervisors could struggle to keep up.

■ ECONOMIC AND TRADE POLICY-MAKING

TRADE

The eleventh hour has arrived

It remains unclear whether the Uruguay Round can be concluded by December 15, when the US administration's negotiating authority expires, says ***David Dodwell***

PETER Sutherland, the newly appointed director-general of the General Agreement on Tariffs and Trade (Gatt), has no doubts about the urgency of concluding the Uruguay Round of world trade talks.

"We can't allow the process to drift aimlessly. We simply don't have the time," he said. "If we are to succeed in December, the eleventh hour is now."

That was in July.

Since then, he has set a series of tight deadlines, intended to galvanise progress; he has lobbied shamelessly in support of trade liberalisation; he has ear-bashed leaders directly – ranging from President Bill Clinton, to Chancellor Helmut Kohl and France's prime minister, Mr Edouard Balladur.

Yet it remains unclear whether the 116-nation round, which is already three years overdue, can be concluded by December 15, when the US administration's negotiating authority expires.

There is very little doubt that the price of failure will be high. It would frustrate the ability of leaders of the industrial world to revive the global economy from its current dogged recession.

The danger is great that countries may retreat into conflict-creating regional trade blocks; equally, an outburst of trade disputes would be in prospect, ranging from steel and farm trade to pharmaceuticals and procurement.

The scores of governments in the developing world that have committed considerable political capital to rapid economic liberalisation will be in danger. At the very least, their plans for further market opening would be in jeopardy.

But perhaps most important of all, consumers will continue to carry the heavy – and rising – costs of protection. A recent study by the Organisation for Economic Co-operation and Development calculated that protectionism in agriculture alone cost consumers $450 a head in the European Community, $360 a head in the US, and $600 a head in Japan.

In a hard-hitting Gatt study, subtitled *The sting – How governments buy votes on trade with the consumer's money*, Mr Sutherland recently commented: "It is high time that governments made clear to consumers just how much they pay – in the shops and as taxpayers – for decisions to protect domestic industries from import competition.

"If governments were to announce that they were deliberately keeping prices high, there would be a public outcry – but that, in effect, is what they are doing by failing to conclude the Uruguay Round."

By the end of this month it will be clear whether there is any realistic chance of Mr Sutherland's tough timetable being met. The deadline for agreeing the text of a services agreement passed on September 20. The deadline for agreeing tariff cuts in manufactures and farm products, and opening markets to trade in services, falls in one week's time.

The results of this week's critical "jumbo" meeting of EC farm and foreign ministers, addressing French demands to re-open negotiations with the US on liberalisation of farm trade, will have been properly digested. Re-opening the talks would almost certainly derail hopes of any farm trade agreement this year, and so would at the same time effectively derail the Uruguay round.

A "substantive stock-taking meeting" is planned in Geneva for October 15, and will be a moment of truth for those who hoped the breakthrough in Tokyo in July, where leaders of the Group of Seven industrial countries agreed a deal to reduce or eliminate tariffs on 18 categories of goods, would provide a springboard for successful completion of the Uruguay Round.

Numerous difficult obstacles to agreement remain. Critical issues, such as market opening for farm products, or tariff cuts across the thousands of categories of traded textiles and garments, face ferocious opposition from powerful lobbies in the EC and the US.

In farm trade, farm exporters from Cairns group countries such as Australia, Argentina and Thailand are adamant that the EC in particular must make a significant market access offer. They insist that, if they are to open their markets further to manufactured exports from the US or the EC, then greater opportunities to sell farm products to Europe must be made available.

Mr Jesus Seade, the former Mexican Gatt ambassador, talked of textiles as a "highly unstable dossier". Many developing countries – prominently India – need better export opportunities to the US and the EC if they are to bow to pressure to open their markets to services, and tighten enforcement of intellectual property protection.

At the same time, many developing countries have been alarmed by western demands that they make market opening offers comparable to those made by the G7 countries in Tokyo. They insist that the "special and differential treatment" granted to poor countries under the Gatt should be protected. This asserts the right of countries to make commitments that match their financial and economic capacities.

Another contentious issue is the Gatt proposal for "tariffication without exception": the demand that importers remove all non-tariff barriers, and replace them with tariffs which are more transparent, and more easily reduced over time. It is a demand particularly precious to farm exporters, but has been resisted fiercely by countries such as Japan and South Korea, which block all imports of rice on food security grounds, and Canada, which has for decades maintained a supply management system in dairy products which limits imports.

Perhaps the last issue to be resolved will be that of proposed amendments to the draft final act, tabled at the end of 1991. This draft may not be carved in stone, but most countries insist that the minimum of changes should be allowed, for fear that the entire balanced package of commitments embodied by it will crumble.

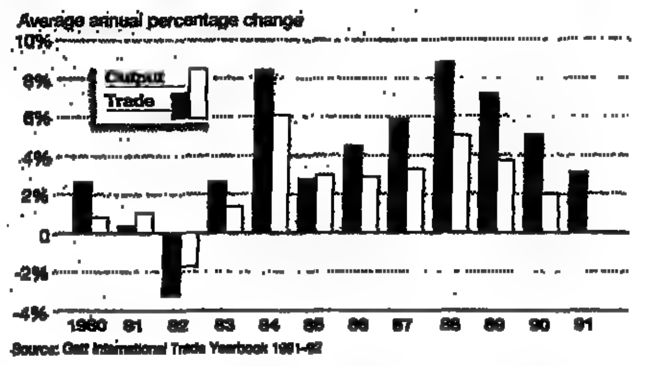
Washington caused consternation late last year by calling for extensive changes, linked with concern to protect its sovereign discretion to apply unilateral trade sanctions where it deemed them necessary.

Perhaps it was fitting, therefore, that Mr Sutherland challenged this issue head-on during a recent visit to Washington, and warned: "Any conclusion in this round requires everybody to take into account that they're not the only people in the world."

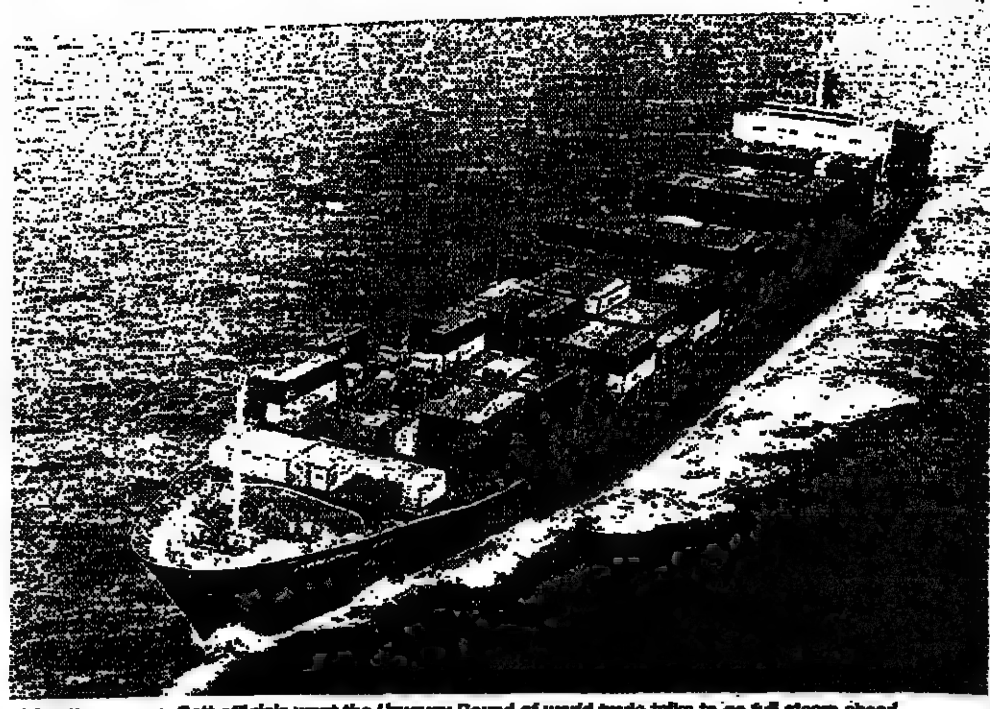
As EC officials, and the young and uncertain administrations of Mr Clinton in Washington, and Mr Morihiro Hosokawa in Tokyo, feel the heat generated by lobbyists who argue just the opposite, they will face a test of statesmanship that predecessors have failed for the past three years.

Hot line: Peter Sutherland, the new director-general of Gatt, has lobbied hard in support of trade liberalisation

World trade and output



Source: Gatt International Trade Yearbook 1991-92



Plying the oceans: Gatt officials want the Uruguay Round of world trade talks to go full steam ahead

World exports of merchandise and commercial services, 1991

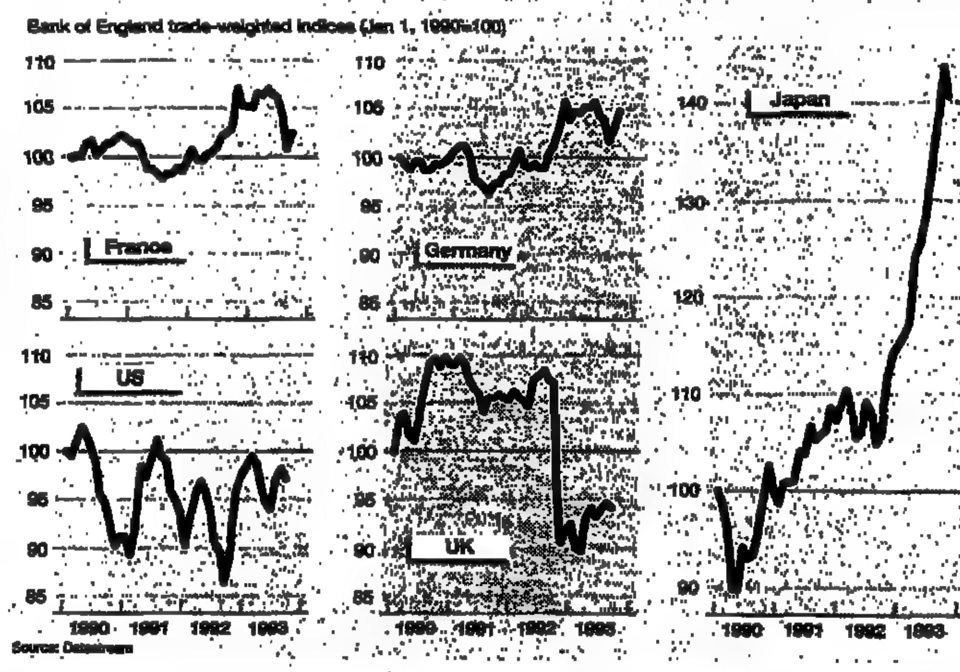
	Value ($bn)	Share in total world exports (%)			Annual change (%)		
	1991	1970	1980	1991	1989	1990	1991
Merchandise	3,506	81	83	79	8	13	2
Commercial services	890	19	17	21	(10)	(21)	(4)

Note: When making comparisons between merchandise trade in commercial services it is important to keep in mind the generally lower quality of the services data. While improvements in the coverage of the services data since the early 1980s have reduced the significant downward bias of the services data, they have also imparted an upward bias to estimates of growth rates since the previous year's figures generally have not been revised to reflect the expanded coverage. The shares in the table were calculated using only data for countries that reported commercial services trade to the IMF on a balance of payments basis.

Source: Gatt International Trade Yearbook 1991-92

Terms of trade

Bank of England trade-weighted indices (Jan 1, 1990=100)



Source: Datastream

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REGIONAL BLOCKS

Fortress mentality is a fiction

*Economists are right to be concerned, but they are worrying about the wrong threat, writes **David Dodwell***

ONE OF the mightier fictions of the 1990s has been that the world is dividing into trade blocks.

Proponents point to the North American Free Trade Agreement, which looks likely to come into being at the end of 1994, and the supposed emergence of a "yen block" focused on the Japanese economy, to underpin their claim.

They point to the parlous state of Uruguay round negotiations aimed at multilateral liberalisation of world trade, and argue that if the talks fail, or reach "second-best" solutions to problems in international trade, then leaders will seek regional deals instead.

The warning is that trade barriers would then be raised between "Fortress Europe", "Fortress North America" and "Fortress Asia", forcing companies to retreat behind the fortress walls. The risk of trade conflict between regions would then be high, with many of the gains of trade liberalisation over the past 40 years in jeopardy.

The EC illustrates both the best and the worst aspects of trade blocks

But the facts do not support so neat and dramatic a trend. Asking specifically whether trade blocks were emerging in Europe, North America, and East Asia, Mr Jeff Schott, at Washington's Institute for International Economics, comments: "The short answer is: yes, maybe, and no.

"A European trade block is clearly in existence, and developing further; a North American block is evolving, although with a distinct outward orientation; and an East Asian block remains a remote prospect."

The world's only true trade bloc at present is the European Community. Internal trade for member states accounts on average for two thirds of total trade. Countries such as Ireland and Portugal rely on the EC market for almost three quarters of total trade. The EC's tentacles reach into the Efta countries on its borders, and have begun to move into east and central Europe.

Mr Schott identifies four basic characteristics for a trade block: similar levels of per capita gross national product, geographic proximity, similar or compatible trading regimes, and political commitment to regional organisation. The EC alone appears to match all four of these.

The EC also illustrates the best and the worst aspects of trade blocks, which are allowed under General Agreement on Tariffs and Trade on condition that they result in removal of barriers to substantially all trade within the block, and as long as they do not result in barriers being raised to third countries.

As the creation of the single European market in January this year illustrates, the EC has moved far in removal of barriers to trade among member states. But its trade with third countries is riddled with the worst kinds of discrimination. As Martin Wolf, a former leading trade economist and now a colleague on the Financial Times, wrote in a recent paper: "Only in discrimination can the EC claim to be a world leader. It is not only itself a huge trading block: it spreads discrimination worldwide. It finds trade tolerable, except where its producers find imports uncomfortably cheap."

He notes how in 1991, 40 per cent of all EC imports entered the market under preferential arrangements: 22.4 per cent under agreements with Efta countries; 7.1 per cent on preferences given to Mediterranean countries; 3.9 per cent under the Lomé convention with developing countries mainly the Pacific and the Caribbean, and 6.2 per cent under general system of preferences (GSP) agreements.

In net terms, this means that four fifths of cross-border commerce for EC member states is either subject to single market rules, or to preferential import arrangements.

At the very least, therefore, the EC's growth has had a trade diverting effect: many companies that might otherwise have exported to Europe have invested locally, and have chosen to supply the EC market from within.

There is also evidence that consumers in the EC, and companies sourcing components from within the EC, have paid a high price for the creation of "Fortress Europe", and the discrimination embodied in Brussels' policies. Peter Sutherland, the new director-general of the General Agreement on Tariffs and Trade (Gatt), pointed out in a recent study that transfers to EC farmers under the common agriculture policy cost consumers about $156bn – or $450 a year for every man, woman and child in the community.

"It is high time that governments made clear to consumers just how much they pay – in the shops and as tax payers – for decisions to protect domestic industries from import competition," Mr Sutherland commented.

These high costs have damaged the export competitiveness of European manufacturers, forcing on them a vicious circle in which they have no option but to seek protection in their domestic markets against imports from less-encumbered manufacturers in Asia and the US.

It was such a vicious circle that eventually brought the trade block of all trade blocks – Comecon – to its knees.

The US has nevertheless begun to flirt seriously with the idea, partly out of pique over the glacial progress of the Uruguay round negotiations. First, its free trade agreement with Canada in 1989, and now its plans to create a North American Free Trade Agreement embracing Mexico, provide the fruits of that flirtation.

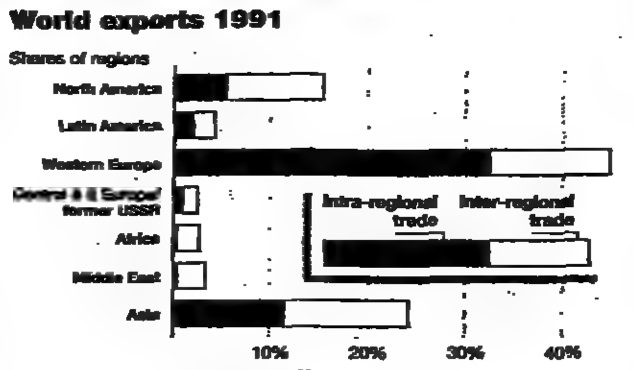
In certain respects, Nafta is no more than a description of economic reality: the US provides the end market for three quarters of all exports from Canada and Mexico. It is not ambitious as the EC has been in trying to create a single integrated market. But at the same time, it seems unlikely to discriminate so powerfully against outside markets: the US relies on outside markets for almost 75 per cent of its exports. It is also home to the majority of the world's globally integrated companies, none of which would welcome fresh barriers to its intra-company trade.

All three countries maintain large trade deficits with the rest of the world, and thus need to improve exports to outside markets if they are to reduce the imbalance. This could not be done by withdrawing inside a Fortress North America.

Mexico has sought membership of Nafta as a means of cementing a wide range of policies aimed at economic liberalisation, and has no desire to see the Nafta rules reverse these.

Neither Canada nor Mexico have any desire to have their economies any further dominated by the US. They continue to call for a strong and rule-based multinational trading system – in short a strong Gatt, and a successful Uruguay round outcome – if they are to achieve any sort of equilibrium in their relations with the US.

World exports 1991



Source: Gatt International Trade Yearbook 1991-92

As Mr Schott notes in a recent book on the Nafta: "The trade effects of the Nafta on third countries depend on the extent of liberalisation achieved in the Nafta itself, and on trade reforms negotiated in the Uruguay round ... Trade diversion is likely to be greatest if the Nafta reforms proceed in the absence of a successful Gatt round."

If Uruguay round negotiations do indeed flounder in this critical final quarter of 1993, then the US is likely to explore carefully the prospects for cementing closer economic relations across the Pacific region. A ministerial meeting in Seattle in October of the Asia Pacific Economic Co-operation grouping is likely to assume great importance.

In the recent past the Apec group has come to be seen by some economists as an Asian trade block in embryo. They see strong flows of Japanese investment across Asia, and rising levels of intra-regional trade, as evidence supporting their view.

It is nevertheless mistaken. Japanese investment across parts of east Asia has indeed been strong, at least up to the recent bursting of the "bubble economy". But Japanese investment flows to the US, and to Europe have been equally strong. According to Mr Gorota Kume, secretary-general of the Japan Institute for Overseas Investment, Japanese foreign investment rose sixfold between 1985 and 1989, peaking at $67.5bn in 1989. But less than 15 per cent of this went to Asia.

Emerging trading blocks?

	1980 $bn	1980 %	1986 $bn	1986 %	1989 $bn	1989 %
EC-12						
Total imports	826.5	100	781.4	100	1,165.8	100
of which: Intra-regional trade	399.5	48	445.4	57	677.2	57
Imports from ROW[1]	427.0	52	336.0	43	498.6	43
from East Asia	49.0	6	63.9	8	104.5	9
from North America	85.8	10	66.0	8	104.2	9
NORTH AMERICA[2]						
Total imports	335.7	100	481.9	100	635.9	100
of which: Intra-regional trade	107.5	32	150.5	31	210.4	33
Imports from ROW	228.2	68	331.4	69	425.5	67
from East Asia	64.2	19	158.4	33	202.0	32
from EC-12	50.1	15	90.6	19	105.8	17
EAST ASIA						
Total imports	294.5	100	308.7	100	558.2	100
of which: Intra-regional trade	92.8	32	117.9	38	224.5	40
Imports from ROW	201.7	68	190.8	62	333.7	60
from North America	58.8	20	69.9	23	123.0	22
from EC-12	29.2	10	40.4	13	77.0	14

1 Rest of the world. 2 US, Canada and Mexico

Source: IMF, Direction of Trade Statistics Yearbook

Looking at individual east Asian countries, Malaysia attracted 25 per cent of its inward investment from Japan between 1988 and 1990, according to the UN's World Investment Report. But other countries in the east Asia region accounted for 42 per cent, while investment from North America or Europe accounted for 33 per cent.

In Thailand and Korea, Japan accounted for 45 per cent and 49 per cent of investment respectively, but in Singapore it accounted for just 35 per cent, in Indonesia 18 per cent, and in China a mere 12 per cent.

Intra-regional trade has grown strongly – from 19 per cent of total trade in 1970, to almost 30 per cent today. But this growth says more about increasing wealth in the region, and its growing importance as an end market for consumer goods than it does about any tendency towards a trade block.

Preconditions for a trade block barely exist: markets are geographically far apart; they range from poor, to extremely prosperous; they maintain divergent trade regimes; and they have shown no powerful political commitment to economic integration.

They have direct experience of the gains to be reaped from maintaining liberal trading regimes. As Mr Wolf notes: "As the world's most successful economies, those of east Asia are unlikely to follow the path of discrimination soon."

If in the wake of a collapse in Uruguay round negotiations the US recoils, and turns to the Asia-Pacific region, the consequence is unlikely to be a fragmentation of the world into three blocks. Rather, it could result in two – the greater European region, focused on the EC and looking inward; and the rest of the world, increasingly interdependent and looking outward. The threat is thus not of the emergence of trade blocks, but of European withdrawal from international trade, and the consequent erosion of the Gatt's multilateral trade rules. Economists are right to be concerned, but they are worrying about the wrong threat.

INTERNATIONAL FINANCIAL INSTITUTIONS

Hair-raising rides

The IMF and the World Bank, facing new challenges in the former Soviet Union, have had to make cultural leaps, says ***George Graham***

FOR TWO old ladies approaching their 50th anniversary, the World Bank and the International Monetary Fund have had a hair-raising ride over recent months.

Dealing with new members in the former Soviet Union seeking to make the transition from central planning to the market economy has posed a challenge different both in type and in size from the kinds of problems the two Washington-based institutions have been accustomed to.

At the same time, the rich industrialised countries have all, to varying degrees, been going through periods of fiscal penury which in the richest of them, the US, has been acute and lasting. As a result, they have looked increasingly to the IMF and the World Bank to handle the financing questions raised by Russia and the other former Soviet republics.

In their different ways, both institutions have made cultural leaps to adjust to the problem.

For the IMF, the adjustment took the form of the Systemic Transformation Facility (STF), a temporary loan fund designed to help countries with the balance of payments difficulties arising from their move to trade at market prices, enabling them to bridge the gap until they could get their economies in shape to qualify for funding from a normal IMF standby facility.

Although IMF officials insist that the STF is conditional on a coherent economic adjustment strategy, and deny that they were simply responding to pressure from the Group of Seven leading industrial nations, it is clear that G7 officials had been urging the Fund to loosen its conditionality in order to help Mr Boris Yeltsin, the Russian president.

"This is not a situation where aid can be delayed until every "i" is dotted and every "t" is crossed," a US Treasury official said earlier this year in discussing the STF.

> Both institutions remain gloriously lacking in cost consciousness

For the World Bank, the answer to easing Russia and its neighbouring republics into the market economy came in the form of the rehabilitation loan, a $600m facility designed basically to secure needed imports.

A second $1.5bn drawing on the IMF's STF is under negotiation, as is a second rehabilitation loan from the World Bank. Russia's relations with both institutions, however, have been strained since the Russian central bank's controversial move in July to cancel all pre-1993 roubles.

In many ways, the rehabilitation loan represents the same sort of leap for the World Bank as the STF does for the IMF – profound cultural changes in institutions that are often accused of being culturally hermetic.

In both cases, the institution has had to loosen or alter some of its traditional lending principles, and runs the risk of criticism from other customer countries in the developing world that it is giving preferential treatment to Russia.

Such criticism has, in fact, been curiously muted. In the World Bank's case, this is at least partly because Russia does not compete for the concessional funds of the International Development Association, although some of the poorer republics, along with Balkan countries such as Albania and Macedonia, may qualify for IDA soft loans.

In addition, the World Bank's finances are strong enough – in spite of having to make a $610m loan loss provision last year, mainly to cover its exposure in Yugoslavia – that it can absorb some additional risk in its lending to Russia without cutting back on loans elsewhere.

In the case of the IMF, however, some developing countries are starting to worry that the increased concentration on Russia could hinder the renewal of the Enhanced Structural Adjustment Facility, a concessional loan fund for poorer countries, when it expires later this year.

But the IMF escapes the public criticism that awaits its sister institution, largely because it does not lend for individual projects and so does not attract the attention of the vocal environmentalist groups who closely monitor the World Bank's lending for dams and power stations in the developing world.

G7 officials have urged the IMF to ease conditionality, to help Boris Yeltsin

Both institutions remain gloriously lacking in cost consciousness, but the World Bank has at least cracked down on first class air travel, while IMF staffers complain bitterly that they are now allowed only the cheapest first class fare on any route – usually obliging them to fly with the national airline of the country with which they are negotiating – and can no longer keep the frequent flyer miles they accumulate for their personal use.

The World Bank, meanwhile, has this year undertaken a sincere if still much criticised effort to improve its effectiveness and increase its transparency.

Responding in part to prodding from the US Congress, the Bank has agreed new standards for disclosing its documents to the public and for setting up a form of appeals process.

At the same time, it has taken a set of initiatives in response to an internal report showing an alarming decline in the quality of its loan portfolio; these measures, it is hoped, will shift the culture of the Bank away from one which rewards managers for generating loan volume and towards a greater emphasis on following projects through to their completion.

"Central to the plan is the commitment to make the management of projects under implementation as important as making new loans. Only sound, on the ground results – the development impact of projects – are true measures of the bank's contribution to sustainable development," said Mr Ernest Stern, one of the World Bank's managing directors.

Outsiders can detect little of such self-scrutiny at the IMF, even though the organisation has at times seemed to be in search of a role since the debt crisis faded.

But perhaps the greatest self-scrutiny should be exercised by the richer shareholders of the IMF and the World Bank, who have increasingly shirked their own share of the burden of handling the world's economic problems in countries such as Russia and its fellow republics in the former Soviet Union.

The demand for the IMF and the World Bank to take up the slack seems likely to grow for many years to come, in areas such as Vietnam, Palestine and South Africa.

THE GROUP OF SEVEN

Malaise follows a golden age

Peter Norman *explains why the doubts and uncertainties surrounding the Tokyo meeting were in marked contrast to mood of the mid to late 1980s*

THEY are the most exclusive club in the world.

But the Group of Seven - comprising the US, Japan, Germany, France, Britain, Italy and Canada - is riven by self doubt.

The recent Tokyo world economic summit - the 19th year such annual meeting - highlighted the G7 malaise. To the untutored eye, the fact that the leaders of the most powerful industrialised democracies were prepared to take three days out of their schedules to discuss problems of mutual concern seemed a sign that international policy co-operation was in good fettle.

But even before the talks began it was clear that not all the G7 heads of government relished the prospect. And the Tokyo summiteers, spurred on by Mr John Major, the UK prime minister, spent part of their time working out how to make future occasions less unwieldy.

The doubts and uncertainties surrounding the Tokyo meeting were in marked contrast to mood of the mid to late 1980s. That was the golden age of the G7, when some observers predicted that the group would grow into a directorate for managing the world economy.

In high profile agreements such as the February 1987 Louvre Accord, G7 finance ministers aspired to control the world's most important exchange rates with the aim of promoting trade and furthering prosperity. As the 1980s progressed, the leaders met yearly in conditions of escalating pomp and grandeur to celebrate strong economic growth, falling unemployment and the spread of free market ideals.

True, there were some discordant events such as the global stock market crash of October 1987, while some cassandras began to grow alarmed at the growth of public and private sector debt in the big Anglo-Saxon economies. But these worries were not allowed to interfere with the perception that the 1980s, culminating as they did in the fall of the Berlin Wall and the collapse of communism, were a living testimony to the west's economic and political success.

> Before the talks, it was clear that not everyone relished the prospect

The subsequent spread of recession from the US, Britain, and Canada to continental Europe and Japan was slow to dent such optimism. Last year's G7 annual economic summit in Munich grossly exaggerrated the ability of the industrial world to resume growth and create jobs and failed completely to anticipate the past year's upheavals on world financial markets.

So it was a sadder group of leaders, many of whom were preoccupied with domestic difficulties, that met in Tokyo's Akasaka Palace in July. All faced political problems and poor opinion poll ratings at home. One G7 leader, Mr Kiichi Miyazawa, the Japanese prime minister, had lost a general election shortly before the summit and was soon to lose his job.

But recent setbacks do not mean that the G7 is finished. The increasingly interdependent world economy is a powerful reason for maintaining a forum in which leaders and finance ministers can meet and get to know each other.

At ministerial level, the G7 is still capable of action. The finance ministers, together with foreign ministers from the group and representatives of the European Community, hammered out a package of measures to assist Russia in April of this year.

True, the support was criticised by many as small compared with the huge economic problems faced by Russia and other members of the former Soviet Union and eastern bloc countries. But it was followed at Tokyo by agreement to mobilise more funds and technical assistance to aid privatisation in Russia. Over the past year, arrangements have also been made under G7 auspices for a nuclear safety programme to deal with the hazards in Chernobyl-style nuclear reactors in former communist states.

Although the G7 finance ministers have long since abandoned any idea of closely co-ordinating economic policies, their meetings, usually three times a year, provide a valuable occasion on which to swap notes and experiences.

Since taking over as US Treasury Secretary, Mr Lloyd Bentsen has been keen to encourage the G7 finance ministers' meetings. Participants report that the atmosphere has improved and that the discussions are less quarrelsome than before.

At least once a year, the G7 finance ministers carry out "mutual surveillance" of each economy's performance. This economic "weight watchers' club" can, through peer group pressure, act to prevent one or several G7 members adopting policies that threaten overall economic prosperity.

The G7 can also promote ideas. The finance ministers' last meeting in Washington in April focused on long term structural problems such as health care costs, education and training and the ageing of populations. The discussions are thought to have helped Mr Theo Waigel, the Bonn finance minister, win the argument in Germany for later moves to limit sickness payments and open a debate in Germany about making its labour market more flexible.

Viewed over the long term, there is little doubt that the G7 meetings since the early 1970s have helped prevent the world falling prey to protectionism.

But the G7 nations have failed to build on this achievement sufficiently to secure agreement among themselves on the ambitious trade liberalisation package which is being negotiated under the auspices of the General Agreement on Tariffs and Trade in the Uruguay Round.

> Failure to conclude the Gatt talks could deal a mortal blow G7 credibility

G7 leaders have called for a successful conclusion to the round in successive annual summit meetings since the end of the 1980s. Their words have been repeated in the many communiques issued by their finance ministers.

Yet in spite of all the huffing and puffing, G7 trade negotiators and farm ministers have been unable to stitch up agreement. It remains to be seen whether more than seven years of negotiations can be completed by the most recent deadline of mid-December this year.

The G7 summit in Tokyo, like the preceding summits in Munich, London and Houston, ended with a ringing declaration on the need for a successful completion of the trade talks. It is the group's "highest priority", the Tokyo communique said.

The statement was rather more credible than past G7 utterances on trade because talks among the so-called quad countries (the US, Japan, the EC and Canada) immediately ahead the summit had produced an agreement to reduce or eliminate tariffs on a wide range of manufactured products.

Difficult detailed trade discussions lie ahead. What is certain, however, is that the future of the G7 has become linked to that of the Uruguay Round. A failure to conclude the Gatt talks could deal a mortal blow to the credibility of the G7 after its leaders have so often pledged to liberalise world trade.

INTERNATIONAL FORECASTING

When crystal balls cloud over

***Stephanie Flanders** examines the accuracy of economic predictions and finds that although accuracy has improved, the record since 1991 is patchy*

IT IS a fact of life for international macroeconomists that one of their least successful product lines is the one which interests the customer most: economic forecasts.

Non-economists generally judge the profession to be worse than useless at predicting what economies will do next. They often go on to ask: what on earth is the point of analysing the world economy if not to help us to do just that?

As it turns out, the most prestigious international economic forecasts are generally a good deal better than nothing, and improving over time. In any given year, however, they are indeed likely to be wrong, and to that extent the popular perception is warranted. Some of the errors are avoidable, but given the number that are not, the organisations concerned might do well to downgrade the importance of forecasts altogether.

Of all economic predictions, those of the Organisation for Economic Co-operation and Development and International Monetary Fund are undoubtedly the most influential. Both institutions have an unparalleled access to the workings of a large proportion of the global economy. As a result, their considered judgment on the future path of output and inflation carry the force of first-hand experience. Not to mention, at least where the combined international forecasts are concerned, the advantage of having something of a monopoly.

The OECD assessed the accuracy of its economic predictions for the seven big industrialised economies in the June issue of its Economic Outlook, and compared the OECD's record with that of the IMF. The authors of the study concluded that since 1971, the OECD's forecasts have, on average, been more accurate than "a random-walk projection" – simply assuming that inflation and economic growth next year will be exactly the same as this year.

Moreover, the accuracy has generally improved over time: from an average error of –0.5 per cent for year-ahead growth forecasts 1971-82 to 0.3 per cent 1983-91. The IMF's forecasts began rather better, and are made earlier in the year, but show a similar pattern of improvement.

Nevertheless, their recent record is still patchy. Projections may now be, on average, more accurate. But in 1991, for example, both the OECD and the IMF were further off in their predictions for economic growth than they had been since 1982. The OECD predicted 2 per cent real GDP growth for the seven biggest economies in 1991, while the IMF plumped for 2.4 per cent. But actual growth turned out to be only 0.7 per cent.

So what went wrong? Both organisations claim that the mistakes of 1991 were only a particular example of a common forecaster's elephant trap: predicting turning points in the economic cycle. As the OECD's recent article explained, there are two reasons why large errors occur.

First, the forecasters may not have been using all the information available to them at the time, something which could presumably be avoided in future. But a second explanation could be that, in the OECD's words, "all information is used, but its predictive power declines sharply close to cyclical turning points".

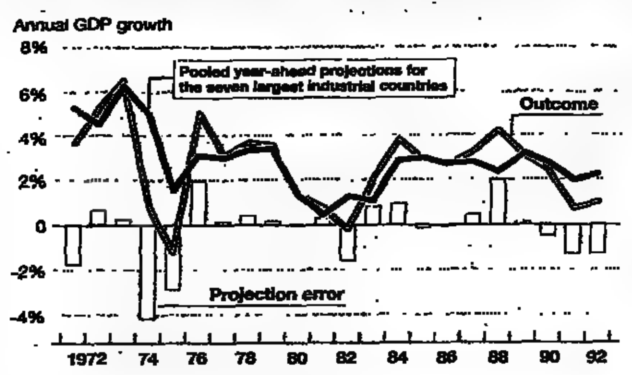
A plausible reason why economic data becomes less useful at these critical moments could relate to delays in gathering statistics. National economic data is usually several months behind reality, and it is reasonable to believe that the lead time becomes more crucial if the real economy is just beginning to turn itself around.

Unfortunately, the record since 1991 has not been much better. Real GNP growth of the seven countries in 1992 was 1.6 per cent, 0.6 percentage points less than either the OECD or the IMF had predicted the preceding year. And in recent publications, both organisations have been forced yet again to lower their predictions for 1993. Repeated over-estimates such as these would seem to indicate a second – more fundamental – problem is involved: namely a turning point, not merely in the economic variables themselves, but in the long term relationship between them.

The most significant international economic forecasts are a good deal better than nothing

A change in underlying economic relations is much more serious for forecasting models, all of which rely on the assumption that past statistical links are stable enough to be a guide to the future. It may be, as the IMF suggested in its April 1992 World Economic Outlook, that economic forecasts did better in the 1980s, not just because economic modelling became more sophisticated, but in large part because the world economy itself followed a simpler and more stable path during the 1980s than it had in the turbulent 1970s. If this is the case, then the ability of IMF, OECD and other forecasting bodies to overcome their recent setbacks could rely more on the behaviour of the world economy than on the depth and sophistication of their models of it.

OECD examines its forecasting record



Source: OECD

The OECD and the IMF are at pains to explain this in their economic reports. In June, for example, the OECD described the past and future uncertainties which have recently hung over their world output projections. Broadly speaking, the unpleasant surprise for the OECD's forecasters was the private sector behaviour in many of the member states. Personal and corporate balance sheet adjustment has continued far longer than most thought possible. The biggest question marks hanging over the current forecasts, the OECD argued, related more to public sector agents: above all, on when and how a number of governments felt able to tackle the state of their own balance sheets.

In the face of such imponderables, some say that the detailed health warnings attached to current forecasts, and regular post-mortems of past mistakes, only serve to bring home the futility of the exercise. Ultimately, argue the critics, the current method of forecasting will never quite be a match for the complex and unpredictable workings of the world economy. As a result, both producers and users of forecasts should have a fresher, more realistic approach to them.

To respond fully to these arguments, the OECD and the IMF would have to extend their current practice of providing forecasts under a number of alternative scenarios, to the point of refusing to offer any "bottom line" forecast for economic growth and inflation. But their readers would also have to stop asking for one: something which they show very little sign of doing.

PROFILE: Lawrence Summers

An intellectual goad at the US Treasury

*The World Bank is coming under strong pressure from one of its former employees to reform itself, writes **George Graham***

IN AN administration which seeks to make economics an essential component of its foreign policy, Mr Lawrence Summers has found a central role as under-secretary for international affairs at the US Treasury.

A talented academic economist with a broad list of publications on everything from tax policy to women's education, Mr Summers has seemed to be waiting for a Democratic president to come along so that he could enter government.

Although he worked for former president Ronald Reagan's chief economist, Mr Martin

Lawrence Summers: a rising star in the Clinton administration

Feldstein, he was also the principal economic adviser to the unsuccessful presidential campaign of Mr Michael Dukakis in 1988, before taking leave of absence from his Harvard University professorship to serve as chief economist of the World Bank.

In his third floor office overlooking the east wing of the White House, immaculately restored to its 19th century splendour during the Bush administration, Mr Summers has come back to haunt his former employers at the World Bank.

One of the tasks assigned to him at the Treasury is goading the international financial institutions into reform designed to make them more effective instruments of development.

The issue has been a popular subject in the US Congress. Spurred on by tales of excess at the European Bank for Reconstruction and Development, members have regularly summoned the Treasury to explain why the US should contribute more money to these institutions.

Senator Jesse Helms has pursued his quest to cut down on first class air travel at the International Monetary Fund, while Mr Barney Frank, chairman of the House of Representatives sub-committee in charge of international financial issues, has harassed the World Bank into improvements in its disclosure policy and appeals processes.

Mr Summers has urged the World Bank to sharpen its focus on poverty relief and on the effective implementation of projects, not sparing it criticism – to the point that some of his former colleagues have accused him of playing to the congressional gallery.

Such criticisms go down well with the vocal US environmentalist community – usually hostile to the World Bank – which retains, nevertheless, an abiding suspicion of Mr Summers.

But Mr Summers's principal role is in the co-ordination of economic policy with the other members of the Group of Seven leading industrial nations.

The US's ability to lecture its partners with good grace has been modestly improved by President Bill Clinton's efforts to pass a budget that would at least slow the growth of the federal budget deficit. G7 finance ministry officials have, perhaps, been more appreciative of these efforts than Mr Clinton's domestic audience.

But the administration's handling of its economic relationship with Japan has at times been less than masterly. Mr Summers's carefully drafted declarations that the US is not seeking to talk up the yen have become almost routine.

The financial markets have taken the opposite view, as a string of Mr Summers's colleagues in the Treasury as well as in other departments has spoken yearningly of how helpful a stronger yen might be in redressing the US trade deficit with Japan.

And some Japanese officials complain that there is little difference between Mr Summers's lectures on the need for fiscal expansion and those of his predecessor in the Bush administration, Mr David Mulford.

Mr Summers has urged the World Bank to sharpen its focus on poverty relief

Mr Summers has also expanded his job to include a broader articulation of US trade policy, where his predecessors at Treasury tended to limit themselves in this field to trade in financial services.

The G7 finance ministers often make earnest declarations at their regular meetings about the need for swift movement on trade liberalisation talks, but their colleagues responsible for these negotiations do not attend the G7 meetings.

That seems unlikely to change, but Mr Summers is seen as a prominent voice in the creation of an intellectual framework for the Clinton trade policy a policy that has at times appeared to foreign partners to pull in different directions: committed to multilateral trade negotiations but at the same time aggressively pursuing bilateral trade measures.

But the administration argues that the two approaches are not incompatible: that tough enforcement of trade laws and international agreements is not just necessary to placate domestic opinion, but actually helpful to the pursuit of a new and more liberal Gatt.

In particular, US officials distinguish efforts to gain access to markets they regard as unfairly closed to US goods and services, notably in Japan, from efforts to close US markets to imports.

The burdens of office have compelled Mr Summers to adopt a less provocative approach to economic argument than was his wont. He has kept, however, his intellectual agility, and is picked by many in Washington as a rising star in the Clinton administration.

THE WORLD'S ECONOMIES – The superpowers

THE UNITED STATES

Basically in sound health

*Declining bond yields are a signpost to recovery, reports **Michael Prowse***

US ECONOMIC growth seems likely to accelerate in the second half of the year after a disappointing first six months, reflecting the positive impact on consumer and business spending of a decline in long-term interest rates to the lowest levels since the late 1960s.

The most spectacular sign of cheaper borrowing costs was the recent decline of the yield on the Treasury's benchmark 30-year bond to below 6 per cent for the first time since it was issued in 1977. Yields on most long-maturity bonds are at their lowest levels in a generation, reflecting investors' confidence (possibly misplaced) that inflation will not pose a threat for the foreseeable future.

The trend toward lower long-term interest rates, under way for several years, should steadily improve the outlook for interest-rate sensitive sectors, such as cars, consumer durables, business equipment and residential housing. It seems likely to outweigh the slightly negative impact on growth of the mild fiscal contraction imposed by the Clinton administration's first budget, signed last month.

But growth will probably remain subdued by historical standards, reflecting low rates of domestic saving and investment, weak consumer confidence and relatively high debt burdens. The contraction still under way in defence-related industries and the uncertainty associated with the planned radical overhaul of healthcare (one seventh of the economy) could also reduce growth in the short run.

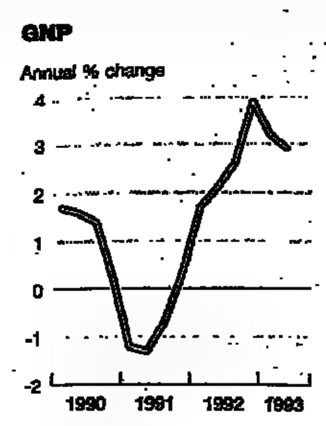
Real gross domestic product is likely to grow at an underlying annual rate of 2.5 to 3 per cent, double the 1.3 per cent rate in the first half but well below the 4-5 per cent rates typical in past US recoveries. The consensus is that GDP will continue expanding at this steady pace, or perhaps a shade faster, next year.

The pattern of growth, however, will be distorted by the extensive flooding in the mid-west in July and August. Crop damage and disruption of business activity could reduce growth by 0.5 percentage points in the third quarter. But rebuilding of damaged infrastructure and a rebound in farm output will probably add at least this much to GDP in the final quarter of this year and in the first period of 1994.

Confidence in the economy's underlying health has been bolstered by the largest upward revisions to past growth rates in 20 years. Last month, the Commerce Department announced benchmark revisions which showed that the 1990-91 recession was shallower, and the subsequent recovery stronger, than previously estimated.

The peak-to-trough decline in GDP was only 1.6 per cent, not 2.2 per cent. Since the recovery began in the spring of 1991, GDP growth has averaged nearly 2.5 per cent, rather than the 2 per cent previously reported.

The scale of revisions was huge. The estimate for GDP in the second quarter released in August, for example, was 1.6 per cent higher than the estimate published in July. Thus, although growth was lower than expected in the first half, the level of national income was actually higher.



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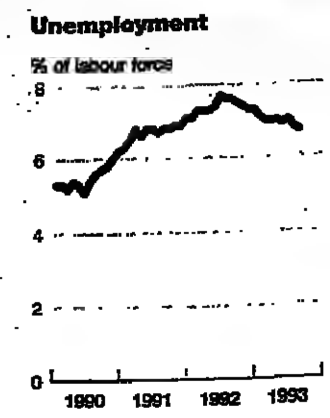
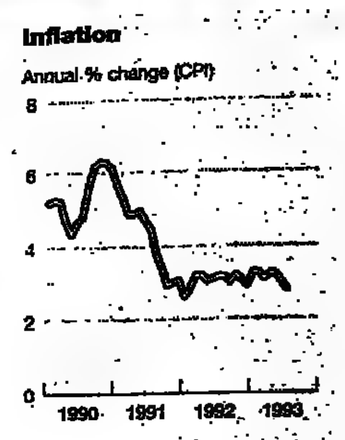




The recent slowdown has to be seen as a reaction to unsustainably rapid growth in the second half of last year (when GDP grew at an annual rate of 4.6 per cent), which in turn reflected the bringing forward of bonus payments to avoid the expected increase in personal taxes in President Clinton's first budget. Over the last four quarters, growth has averaged just under 3 per cent.

The composition of growth is encouraging. In the year to the second quarter, the volume of gross private investment grew by 8.8 per cent, far outpacing a 3.4 per cent increase in real consumer spending. The capital formation, moreover, was concentrated in productive business rather than residential housing, which expanded only modestly.

Led by a surge of investment in computing equipment, business spending on durable equipment rose 14.6 per cent in real terms. Government spending, by contrast, was flat, reflecting the fiscal inhibitions imposed by a decade of record budget deficits.

The popular notion that the US is experiencing a "jobless recovery" is hardly supported by the data. The unemployment rate has fallen more than a percentage point to 6.7 per cent in the past year. Weekly claims for unemployment insurance fell to 316,000 at the beginning of September, the lowest level in four years and far below the peak of over 500,000 reached during the recession.

Employment figures confirm this picture of a steadily improving labour market. Since its trough in February last year, non-farm payroll employment has risen by 2.2m to 110.3m, comfortably surpassing the previous peak in 1990. What the overall trend masks, however, is variations between sectors.

Service sector employment (especially in healthcare) has risen substantially, but manufacturers have steadily eliminated jobs: at 17.7m, the current level of manufacturing employment is nearly 10 per cent below its pre-recession peak.

But this is more a reflection of efficiency gains in US factories than of a broader malaise in US manufacturing: productivity has risen by more than 5 per cent in the past year, and the length of the average workweek is at its highest level in 25 years.

The forecast of steady US economic growth is not without risks. Some analysts believe US share prices have risen too fast and could tumble, undermining consumer and business confidence. The weakness of foreign trade continues to sap the economy's domestic vitality: but for a rising trade deficit, the US would have grown by 3.5 per cent in the year to the second quarter, rather than the 2.9 per cent actually record. But, two years into the recovery, the best guess is that the business cycle's natural momentum will keep the economy rolling forward.

GERMANY

The ground feels more stable

*The economy's high-cost base is under attack, says **Christopher Parkes***

THE WORST of the German recession may be past, but no one is cheering. After four consecutive quarters of nil or negative growth, gross domestic product in the west showed a 0.5 per cent increase in the second quarter of this year, compared with the first three months.

However, aggregate output was still 2 per cent below year-earlier figures, and industry especially reported that there was a long way to go before the peaks registered in 1991 and early 1992 could be matched. On a wider front, the economy is emerging from the trough with its key structural problems unresolved. Inflation, at an annual 4.2 per cent rate, is virtually the same as when the recession hit. In the east, chronic unemployment remains to be tackled.

No one expects either a rapid recovery or a speedy solution, but there is growing confidence that at least the ground underfoot is stabilising, allowing long-standing problems to be tackled in a calmer atmosphere.

"We are in neither a dramatic nor a traumatic situation... We are in a difficult recession which came very quickly and went very deep," according to Hilmar Kopper, chairman of Deutsche Bank.

Apart from GDP figures, there is ample evidence that the tide has turned. The west German business confidence index of the respected Ifo economics institute in Munich has been climbing, with some hesitation, since January.

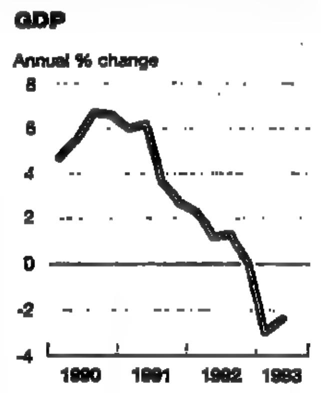
In the east, meanwhile, little has changed. Most industrial companies are running losses, while services, skilled trades and construction are expanding, as they have since unification in October 1990. But they are still growing mainly on the back of demand from the public sector, funded mostly by transfers from the west, estimated this year at DM170bn. Total GDP in the east is expected to grow 6.5 per cent this year and 6 per cent next, although, as Ifo points out: "This cannot be called a self-sustained upswing."

Such optimism as can be found for the immediate future of the overall German economy stems from general perceptions rather than hard and fast trends. Conditions in export markets are not at their best, but at least they are no longer deteriorating, says a recent report from Paribas Capital Markets, for example. It also notes that despite fears of a rapid appreciation of the D-Mark - and damage to German products' international competitiveness - as a consequence of the effective suspension of the European exchange rate mechanism, the German currency, on a trade-weighted basis, is no stronger now than it was six months ago.

Ifo, on the other hand, says there is cause for concern in the fact that improvements in foreign demand are not coming from Germany's traditional west European markets, but from hitherto neglected niche areas such as south-east Asia where trade relationships are less stable. This, coupled with expected average economic growth of 1 per cent next year in Germany's nearby trading partners - compared with a forecast 5 per cent expansion in world trade - suggests a less telling contribution to export-led recovery from recession than in past downturns, the institute says.

The return to normal is also expected to be slowed by falling private demand within Germany. After dropping by an estimated 1 per cent this year, the trend is expected to continue into 1994.

Although the new year's wage round has yet to start,



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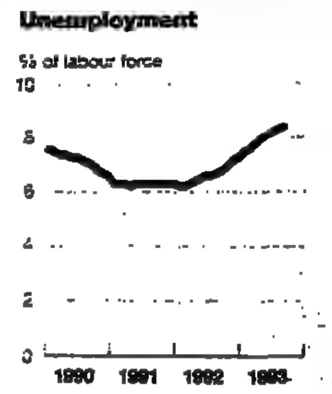
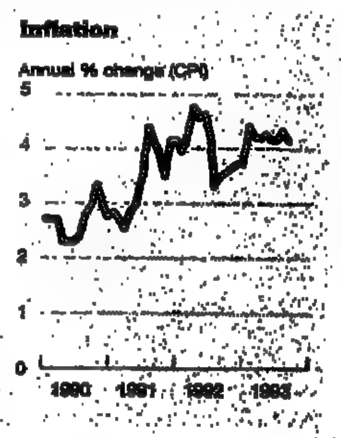




there is an air of resignation about early suggestions from leading trade unions, which say they are prepared to accept pay rises for the new year equal to inflation plus productivity gains. Civil servants, meanwhile, can expect no increase - equivalent to a real 3 per cent decline.

Whatever the outcome of free-market pay negotiations, consumers' pockets are likely to be severely squeezed by the federal government's budget consolidation programme. The budget will reduce disposable incomes by DM40bn next year alone. Ifo suggests average disposable incomes will fall by a real 2 per cent as inflation of 3 per cent sweeps away nominal gains of just 1 per cent.

The government's consolidation measures represent one side of a concerted effort to attack Germany's high-costs base, which is widely acknowledged as the overall economy's main and most debilitating weakness. Industry, too, has set about the job of cutting costs with an unaccustomed vigour. In the 12 months to the end of June this year, manufacturing shed 7 per cent of its total workforce, and there is no sign of the trend relaxing, least of all in the automotive and engineering sectors, the country's main export industries.

The need for further savings was underlined in the government's second-quarter GDP report, which showed overall productivity still falling and unit labour costs still rising.

Industry's attack on its inflated costs base is as bold as it is wide. Just as the government is chipping away at the welfare state, companies are also slicing into time-honoured employee benefits. That Daimler-Benz should risk confrontation with its unions over cuts in perks such as Christmas bonuses, spa cures and first-communion clothes for employees' children, demonstrates the intensity of the search for economies.

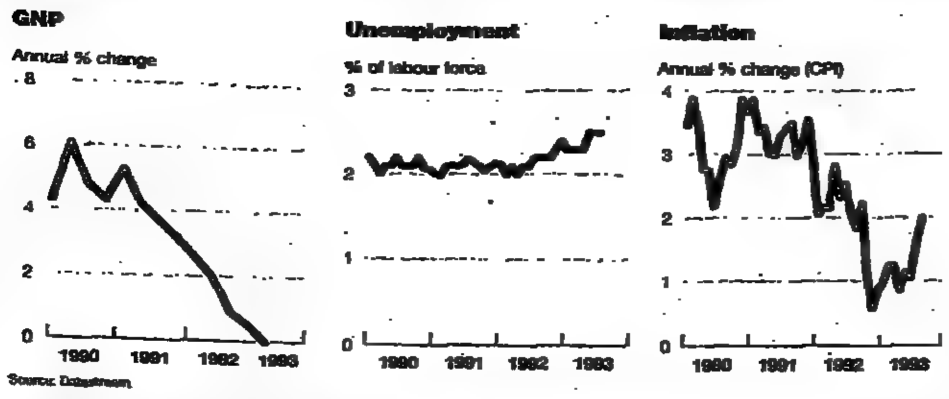
But the main target is the workforce. More jobs have been lost in western industry since mid-1991 than were created in the post-unification period. Unemployment will continue to rise next year as the search for higher productivity continues. Even though GDP is expected to grow by 0.5 per cent, the proportion of the workforce unemployed is widely forecast to hit new records, above the 8 per cent peak recorded in 1985. Little improvement is expected in the east, where the rate is expected to continue hovering just under 16 per cent.

Longer term, worse is to be expected if industry fails to press ahead with the process now under way, and current pay and conditions agreements in the east remain unchanged. A projection from Goldman Sachs suggests no relief from high unemployment in the west for the next three years, while the rate in the east charges upwards to peak in 1996 at a staggering 37 per cent.

JAPAN

Rough weather continues

The 'clear skies' forecast has proved to be optimistic, writes ***Robert Thomson***



JAPAN'S forecasters have taken to studying cloud formations to increase their understanding of the economy's poor health. The Economic Planning Agency said an unusually wet summer had led to "unanticipated" falls in consumption, and the Bank of Japan has partly blamed the weather for driving away an expected recovery.

The EPA presumes that a promised recovery is overdue, not that its original "clear skies" forecast was overly optimistic, although the agency predicted 3.3 per cent growth for the fiscal year and most private institutional estimates are for 1 per cent or less growth.

Causes – other than the meteorological – of the prolonged downturn are described in the EPA's own investigation into the "bubble economy" of the late 1980s, when asset prices, capital investment and corporate profits reached unsustainable heights, from which they have descended for the past three years.

In the report, the EPA conceded that the 1980s excesses had left a "huge scar on the Japanese economy" and that recovery "will likely remain more moderate than past recovery phases". The EPA also suggested that the "last adjustment phase" before recovery began in 1991, meaning that the economy has been "bottoming out" for more than two years.

Mr Morihiro Hosokawa, Japan's new prime minister, arrived in office to find his advisers at the EPA predicting an imminent recovery, while the flow of economic statistics headed in the opposite direction. New car sales in July fell 10.8 per cent from a year earlier, the ratio of job offers to applications slipped from 81:100 to 74:100 during June and the trade surplus in July expanded 24.9 per cent, as import demand remained weak.

Mr Hosokawa's response was a Y6,150bn spending and deregulation package, also designed to pass on the benefits of yen appreciation to consumers.

The yen's rise had put extra pressure on manufacturers still flabby after their investment excesses of the late 1980s. Instead of relocating more production in lower-cost east Asian countries, many manufacturers added capacity in high-cost Japan.

The increase in capital spending in the late 1980s, when capital was raised at almost no cost, was highlighted by a 24.4 per cent rise in new machinery orders during 1988. Companies which put on extra production capacity and staff were, in some cases, also indulging in speculative property and stock investments which have since turned sour.

These companies are now facing their fourth successive year of falling profits. The New Japan Securities Research Institute estimated in early September that the combined pre-tax profits of companies listed on the Tokyo exchange would fall 17 per cent in the year to March, while their sales would shrink 3 per cent.

A senior manager at a Japanese brokerage said the Bank of Japan and the EPA had apparently failed to comprehend the eventual effects of the asset price fall on the "real economy". In the months after the stock price slide begin in 1990, bank officials argued that the effects would be isolated, afflicting only those companies and individuals speculating in property and stocks.

As well as discovering that speculation was more prevalent than they had expected, Bank of Japan officials conceded that they had underestimated the effects on consumer and corporate confidence of the market crash.

Two years ago, the bank insisted that companies were "unnecessarily gloomy", but their profits have fallen a long way since then.

The bank is concerned that the yen's appreciation has made companies even more gloomy, and capital spending will continue to fall. Mr Yoji Inaba, economic research director at the Japan Development Bank, said companies had generally presumed that the yen would strengthen, but the pace of appreciation has surprised them.

He warned that the currency movements would encourage cost-conscious companies to lay-off staff on a scale not seen in modern Japan. "Another year of falling profits and companies will have to start getting rid of excess workers in middle management," he said.

There are signs that labour cutbacks have already entered a new phase. Nippon Telegraph and Telephone wants to reduce its workforce by 10,000 in the next year through voluntary retirement and its longer-term goal is to trim employees from 230,000 to 200,000.

Toshiba, the electronics group, followed the NTT announcement with a plan to shed 5,000 workers over the next three to five years. On the day Toshiba explained its cutbacks, the Machine Tool Builders' Association reported that machine tool orders fell 27 per cent in July, against a year earlier.

The yen's appreciation, halted momentarily by concerted intervention, has stirred debate about a "hollowing out" of Japanese industry, a theme popular during the bout of appreciation in the mid-1980s. The fear is that profit production capacity will be shifted to cheaper Asian locations, a point made by the Bank of Japan in its most recent quarterly outlook for the economy.

"The current stagnant investment in the assembly industry is a reflection of low profitability in the industry, and the possibility that a further appreciation of the yen could trigger a massive substitution of overseas investment for domestic production cannot be ruled out," the bank said.

The seven-party coalition is divided over how much time should be spent on economic policy, as its first priority is supposed to be reforming the political system.

But the coming of coalition government has not been as disruptive as Japanese business organisations had feared.

A consensus quickly emerged within the coalition that another stimulatory package was needed, and the Bank of Japan appeared to agree that lower official interest rates were also necessary to encourage investment and private consumption.

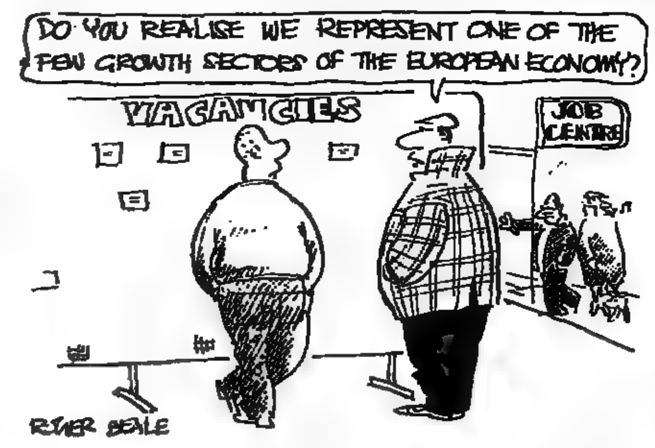
Meanwhile, the finance ministry is delighted that Mr Hirohisa Fujii, the new finance minister and a former bureaucrat, has quickly fallen into policy line. Mr Fujii is already arguing that the country cannot afford a tax cut and that a spending package must be calculated with an eye on falling tax revenues.

Europe

EUROPEAN MONETARY UNION

Vacuum at the heart of the EC

The Brussels compromise transformed the ERM from a semi-fixed exchange rate system into a 'dirty floating' operation, says Lionel Barber



FIRST Black Wednesday, then *Lundi Noir*. The de facto suspension of the ERM agreed on Monday, August 2, marks a turning point in Europe's plans for monetary union.

Few dare to predict the outcome. But it is clear that EC leaders have begun to reassess the approach to EMU as set down in the Maastricht treaty.

The two core assumptions in Maastricht were that the ERM could evolve smoothly into a monetary union before the end of the decade, and that the Franco-German alliance could drive the rest of Europe forward into a full political union. Both these assumptions now look dubious.

The strains between the Paris and Bonn governments are evident, even if there is no suggestion of a breach. Germany resented French pressure to lower its interest rates in the run-up to the ERM crisis.

Tensions increased when France pushed hard for the D-Mark to leave the ERM temporarily, against the advice of Chancellor Helmut Kohl.

The Brussels compromise transformed the ERM from a semi-fixed exchange rate system into a "dirty floating" operation, with currencies allowed to fluctuate up to 15 per cent before central banks are obliged to intervene. The result is a vacuum at the heart of European monetary co-operation.

The Community appears to be dividing into several camps, with no obvious consensus on procedure.

The first camp contains the "purists". Led by the European Commission, this group argues that it is vital to stick to the EMU game-plan set out in the Maastricht treaty.

The purists include Belgium and Ireland and, broadly speaking, Italy and France. Each puts a premium on EC solidarity; each would like Stage Two of Emu to begin on January 1, 1994, along with a deal on a location of the European Monetary Institute, the precursor the European Central Bank.

The purists believe the European Monetary System's structures remain intact, thus allowing a reconfiguration of the narrow fluctuation bands once economic conditions become more favourable.

The second group contains the "sceptics", of which Britain is the self-appointed leader. Mr John Major declared last month that the EMU timetable was "totally unrealistic" – words which might have carried more weight had the UK prime minister not chosen to utter them on the day Britain formally ratified the Maastricht treaty.

Mr Major and his Cabinet colleagues are convinced that history is on their side. They believe they are winning all the arguments in favour of a more flexible approach to European integration.

The third group constitutes the "radicals", of which Spain is the most obvious leader. Having suffered three successive devaluations of the peseta (one in the middle of a general election campaign), Spain was so frustrated during the ERM crisis talks in Brussels that it called for a full suspension of the system.

There are now fears in some European capitals that the Spanish may in future propose some form of capital controls as the best method of defending currencies and punishing the speculators, no matter the damage to the single European market.

The fourth group, which is probably the largest, contains the "pragmatists". Led by Germany, the group includes the Netherlands, Denmark, and Luxembourg; it may also extend part-time membership to the UK and France.

The pragmatists believe that there needs to be much more realism about EMU. If there is slippage in the EMU timetable, so be it.

Chancellor Kohl specifically raised the prospect of a delay of up to two years during a post-crisis television interview, and other officials are now wondering privately if the 1999 target date for automatically locking exchange rates is viable. At the same time, the pragmatists, particularly Germany, insists that the "convergence criteria" for EMU on inflation, budget deficits and government debt must be adhered to.

Already some EC leaders have absorbed the lessons of the crisis. In the early hours of August 2, Mr Wim Kok, Dutch finance minister, spoke eloquently about the risks involved in exporting the discipline of price stability to the rest of the EC. Some countries had obviously concluded that the resulting high unemployment was too high a price to pay, he said.

Mr Kok was too diplomatic to mention names, but he was clearly referring to France, whose government was forced to abandon its preferred *franc fort* policy because it could not bear to raise interest rates higher to defend the currency. The same lesson applied to the UK last September, and it continues to be valid for the poorer "Club Med" countries grouped around Spain.

The tension between what might loosely be called the German and Latin economic models is as old as the European Community itself. But it becomes sharper during a recession, or when the Community embarks upon an enterprise as ambitious as monetary union.

In the coming months, it is safe to predict that the EC will enter a vigorous debate about EMU. The starting-point will probably be the "White Paper" on employment and competitiveness being prepared by Mr Jacques Delors, president of the European Commission, likely to appear under the grand title of "Entering the Twenty-First Century".

The original impetus for the paper was growing evidence that Europe was failing to create jobs at the same rate as the US and Asia, leading to an inexorable rise in unemployment.

The ERM debacle makes the White Paper even more relevant. It will allow the EC to focus minds on the "real economy" and its relationship to EMU, says one Brussels official involved.

The implication is that EC leaders need to focus on today's problems rather than tomorrow's aspirations. No doubt the intellectual case for a single European currency operating in a single European market is as powerful as ever; but from now on, EMU will have to win the political argument, too.

UNITED KINGDOM

The limits of perfection

*Although all the key indicators are pointing in the right direction, **Emma Tucker** says seasoned watchers are wondering if the good news will last*

THE UK economy is enjoying a perfect recovery; output is up, unemployment is falling, and price increases are at their lowest levels for 30 years.

That, anyway, is the story told by official figures. But many seasoned watchers of the UK are not entirely convinced that the good news will last. Twelve months out of recession the cynics are sceptical that the next few years will bring a sustained economic recovery with inflation firmly under control.

As it emerged from the economic downturn of the early 1990s, the UK had a head start over the rest of Europe. Official data shows the recession ended in the middle of last year, but the incipient recovery was accelerated by the massive monetary easing that followed September 16, 1992, when the UK was ousted from the European exchange rate mechanism.

Interest rates were cut from 10 to 6 per cent and sterling devalued by about 13 per cent, providing a kick to most sectors of the economy, but mainly to manufacturing industry.

Manufacturing, which was almost 2.2 per cent up on a year ago in the first half of the year, fuelled a 0.4 per cent rise in gross domestic product in the first quarter, followed by a 0.5 per cent increase in the second.

The depreciation of sterling, which made UK goods more competitive at home and abroad was one factor behind the rise in manufacturing. Restocking by wholesalers has also picked up as has capital spending by companies.

Consumer spending progressed more cautiously. It improved only modestly in the first six months of the year apparently held back by fear of unemployment, continued high levels of debt and a squeeze on real wages.

Jobless data took economists by surprise, falling for five consecutive months in the first half of the year. A number of explanations were put forward for the unusually early drop in unemployment. These included:

■ The more flexible labour market following the scaling down of union power during the 1980s;

■ A possible over-shedding of labour towards the end of last year as companies took a pessimistic view of the economy. They are now having to re-hire after the substantial relaxation of monetary policy that followed the UK's exit from the ERM.

■ A reduction in the jobless total due to government policies to get unemployed workers on to training schemes.

News on inflation has also been encouraging. In June the retail prices index – the headline rate of inflation – dropped to 1.2 per cent, its lowest level for 30 years. The underlying rate of inflation, the RPI excluding mortgage interest rates, has dropped to below 3 per cent, within the government's target range of 1-4 per cent.

Although inflation has since crept upwards, there are few pressures on prices. The combination of a slow recovery in domestic demand, low unit labour costs, and a recent appreciation of sterling probably means that underlying inflation will stay within the government's target range this year. Furthermore, manufacturers have apparently been able to absorb the higher cost of imports following devaluation, mainly because the cost of labour has been easing at the same time.

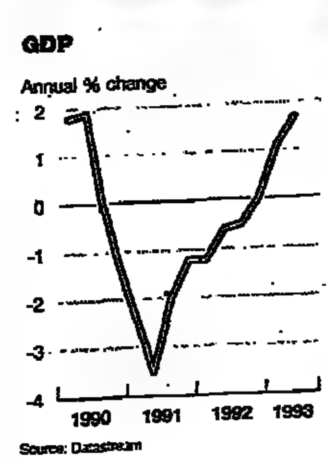
Recent trade figures show some improvement in the UK's trade performance. In the first quarter the current account deficit was £4bn, little changed on the previous quarter, but more recent data on non-EC trade (which accounts for just under half the UK's total trade) show that in the second quarter the non-EC visibles deficit was £2.3bn, £1.1bn lower than in the first quarter.

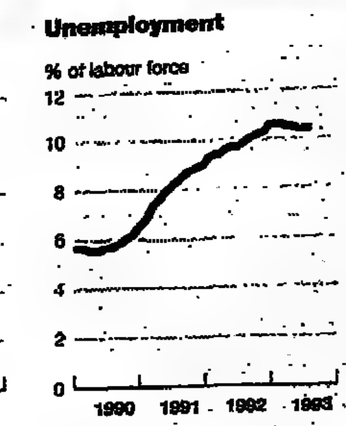
The outlook for the economy, according to the consensus among economists, is that GDP will continue to grow at roughly the same rate in the second half of this year, but will slow next year. The official Treasury forecast, made in March, is for growth of 1.25 per cent this year, although the Treasury has hinted this forecast will be revised upwards in the November budget. Certainly the consensus is slightly higher at about 1.6 per cent.

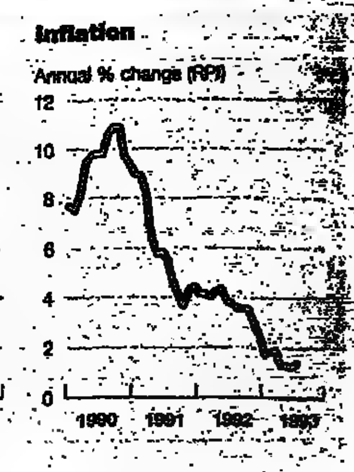
Next year, the Economist Intelligence Unit believes the economy will grow by 2.2 per cent, slightly less optimistic than the Organisation for Economic Cooperation and Development which puts it at 2.9 per cent. The official forecast is for the economy to grow by 3 per cent in the first half of 1994.

Why though, given the encouraging story told by current figures, are forecasts for growth next year relatively lacklustre? The caution among economists reflects awareness of a number of factors that could act as a restraint on activity. These include:

● Tax increases. In the Spring budget Mr Norman Lamont, the then chancellor, announced tax increases to raise £6.2bn in extra revenues, to come into effect in 1994/95.







Further fiscal tightening is likely to be signalled in the autumn budget as Mr Kenneth Clarke, the chancellor, grapples with the public sector borrowing requirement, forecast to reach £50bn in this financial year.

● Recession in Europe. Although interest rates in Germany are gradually being reduced, economic activity in Europe is sluggish. With more than half of the UK's overseas trade accounted for by the European Community, exporters face a tough struggle to sell their products, even after the devaluation.

● Debt overhang. Household debt is still about 100 per cent of the annual flow of disposable income, and although the savings ratio has dropped, personal saving is still high. Survey evidence suggests consumers are either generally unable or unwilling to take on new debts.

Not all economists are as cautious about medium-term prospects. The optimists argue that excess capacity, resulting from reduced output during the recession, will allow for strong non-inflationary growth.

Much depends on the behaviour of the government. In its latest report the EIU said it remained "convinced that the government's medium term aim of bringing inflation down to the bottom of the 1-4 per cent target range will be forsaken in favour of stronger economic growth".

Such a strategy would help bring unemployment down in the short run but as Mr Eddie George, governor of the Bank of England, warned in a recent interview: "If we go for rapid expansion now, which brings back inflationary pressures very soon, we will experience what we had in the past which was a period of good years followed by three or four lean years."

With the latest "bust" behind it, the UK does not appear to be heading for another boom. But the perfect recovery may yet be derailed by an unpopular government struggling to keep a particularly small parliamentary majority happy.

Profile: EDDIE GEORGE

Down-to-earth – and blunt

As the new governor of the Bank of England settles into his job, in a sense it is business as usual

AS Eddie George settles into his new role as governor of the Bank of England, the winds of change are blowing through Threadneedle Street.

A postman's son who grew up near a sewage works in south London, Mr George became governor on July 1, taking over from the patrician-mannered Robin Leigh-Pemberton (now Lord Kingsdown). While his predecessor lives on a country estate in Kent, Mr George inhabits a modest suburban house in Dulwich, south London, with a car showroom and toddlers' club at the end of his road.

The new governor's down-to-earth lifestyle fits in with a blunt approach to organising the Bank's operations, particularly in the crucial area of monetary policy. Here the Bank advises the Treasury on day-to-day management of exchange rates and interest rates and has been given a new mandate to publish a quarterly report on how it views inflationary pressures.

This idea – put forward by Mr George at the end of last year when he was deputy governor – is designed to improve public confidence in the UK's economic policies after the trauma of last September's exit from the European exchange rate mechanism.

Mr George has been at the Bank for 31 years and has been the key influence on Threadneedle Street in the past five years. One close observer of the Bank says: "No one pretended that Robin Leigh-Pemberton had anything very original to say on monetary policy. Eddie was always there at his elbow to help out. The move up to governor is the apotheosis that Eddie has been looking forward to for the past five years and so in this sense it is business as usual."

The view that life at the Bank was not going to change because of Mr George's appointment is backed up by his own remark just before the Thursday in July when he stepped up to the top position. His laconic comment was that it would be "just like any other Thursday".

It is true, the world hardly fell out of bed when Mr George took over. However, one big fan is south London estate agent Mr Hendrik Bossman, who also runs the Dulwich traders' association.

Mr Bossman, who wrote to the new governor when he heard of his promotion and received a "courteous" reply, says of Mr George: "I think he's going to be a success. He may be uncharismatic, but that doesn't bother me: he should get on with his job, not worry about appearing on TV shows."

Mr George's promotion cannot be seen in isolation. Senior Bank officials are increasingly willing to take arguments to the outside world, and – as with the inflation report – expose some of its economic thinking to the public.

Even though the Bank remains less important than the Treasury in UK economic management, its position has become more powerful partly because of the errors made by the Treasury in misjudging the inflationary burst of the late 1980s, failing to recognise the seriousness of the recession which followed and the poor management of Britain's response to last September's ERM crisis.


Eddie George: the winds of change are blowing through Threadneedle Street. Picture: Trevor Humphries

Helping this shift to greater openness is that, of the top six Bank officials, three are relative outsiders to the institution – the new deputy governor Rupert Pennant-Rea, economics director Mervyn King, international director Andrew Crockett – leaving the three "insiders" as Mr George, banking director Brian Quinn and monetary guru Tony Coleby.

Prior to the recruitment of Mr Pennant-Rea from his job as editor of the Economist and the retirement of the previous governor, the outsider/insider balance was two to four.

One person with close knowledge of Bank activities says: "It may not seem all that significant, but the change has definitely altered the personal chemistry at the Bank. There is a strong sense that the Bank is more willing to engage in a discussion with the outside world."

One of Mr George's preoccupations in the next few months will be to build up stronger links with the business community.

There is a plan afoot at the Bank to involve Mr George more than his predecessor with informal discussions with business leaders, possibly through arrangements such as dinners. Since he took over in July, Mr George has already had one dinner with top executives who are members of the Confederation of British Industry's economic affairs committee.

This committee is chaired by Sir David Lees who, as well as being chairman of the engineering group GKN, is on the Bank's court or board of non-executive directors.

Mr George can also be expected to participate in an initiative under discussion at the Bank looking into the relationships between commercial banks and small businesses.

Peter Marsh

FRANCE

Braced for a bruising battle

*After the currency crisis in August, **Alice Rawsthorn** assesses the problems facing Mr Balladur as his government tries to kick-start the economy*

EVEN Mr Edouard Balladur, France's usually unflappable prime minister, must have winced when he read a recent letter from a group of bankers in Libération newspaper, attacking the "ayatollahs of the strong franc" for the damage they had wreaked on the French economy.

Mr Balladur, who had cast himself in his first four months as prime minister as the chief proponent of the *franc fort* policy of protecting the French currency, had just emerged from the humiliation of the August currency crisis when the speculative assaults on the franc had left his monetary policy and the European exchange rate mechanism in tatters.

France, like its fellow European Community member states, had been forced to broaden its ERM fluctuation margins from 2.25 per cent to 15 per cent. So far the franc has proved to be surprisingly stable in the wake of the crisis. Moreover, Mr Balladur's popularity has remained intact. He still has the highest approval rating at this stage in his tenure of any prime minister in the Fifth Republic apart from Mr Jacques Chaban-Delmas, who reigned over the Hôtel de Matignon during the 1970 economic boom.

The critical question is whether Mr Balladur can continue to command the public's support in the 18 months until the presidential elections in spring 1995. The conventional wisdom is that both his conservative coalition's hopes of remaining in power – and his own chance of ousting Mr Jacques Chirac, the head of the RPR party and mayor of Paris, as the right's presidential contender – will be contingent on his success in revitalising France's sluggish economy and halting the rise in unemployment.

So far Mr Balladur has had no success on either front. The economy, squeezed by high interest rates and a strong currency, slid into recession during the opening months of this year, when it registered a second successive quarterly decline in the real rate of growth for the first time since the Gulf War.

Consumer spending *and* industrial investment have remained weak in spite of the reductions in interest rates since the conservative victory in the March parliamentary elections. The fall in the franc's value has not been sufficient to trigger a significant recovery in exports. Salomon Brothers forecasts a 1.5 per cent fall in the real rate of GDP growth during the course of this year. The latest surveys of business confidence suggest that industrialists do not expect to see an upturn in the economy until the fourth quarter at the earliest.

In the meantime unemployment, which was already at a record level of 3m people when the right came to power in the March parliamentary elections, has since risen steadily to around 3.2m, or a record 11.7 per cent of the workforce (the highest of any G7 country) and is expected to reach 12.5 per cent by the end of this year.

Mr Balladur's response has been to try to kick-start the economy through a combination of employment reforms and public sector expenditure. Mr Michel Giraud, the labour minister, recently unveiled a series of measures intended to make it easier for employers to create new jobs by liberalising France's infamously strict employment law. These include waiving employers' social security payments for the first three new workers they hire and making the 39-hour working weeks more flexible.

Meanwhile, the success of the "Balladur bond", the special bond issue launched this summer which raised FFr110bn, rather than the FFr40bn originally forecast, has enabled the prime minister not only to step up his public expenditure plans but to promise income tax cuts next year for middle income employees.

However, the government's room for manoeuvre is restricted by a number of factors. One is the budget deficit. Mr Balladur, who inherited a sizeable deficit from the previous socialist administration, hopes to limit this year's deficit to FFr317bn. However, most private sector economists suspect it will be rather higher at around FFr350bn.

Another inhibiting factor is the structure of the present recession which has had a devastating effect on consumer confidence partly due to fears of joblessness and partly to the high rate of real interest rates, or the discrepancy between retail price inflation and bank base rates.

In past French recessions inflation has been higher than base rates, thereby encouraging consumers to spend money for fear of being caught out by rising prices.

But inflation has been at least six percentage points below base rates throughout the current slump, a scenario that has encouraged consumers to save rather than spend. Société Générale estimates that the personal savings ratio rose from an average of 10.9 per cent in 1987 to 12.8 per cent last year and is now well over 13 per cent.

The success of the "Balladur bond" illustrates just how nervous French consumers have become. A large chunk of the FFr110bn used to buy the bonds had been lying idle in savings accounts or SICAV money market funds. The bond holders could just as easily have spent their money, but had chosen instead to save it and then to invest in government bonds.

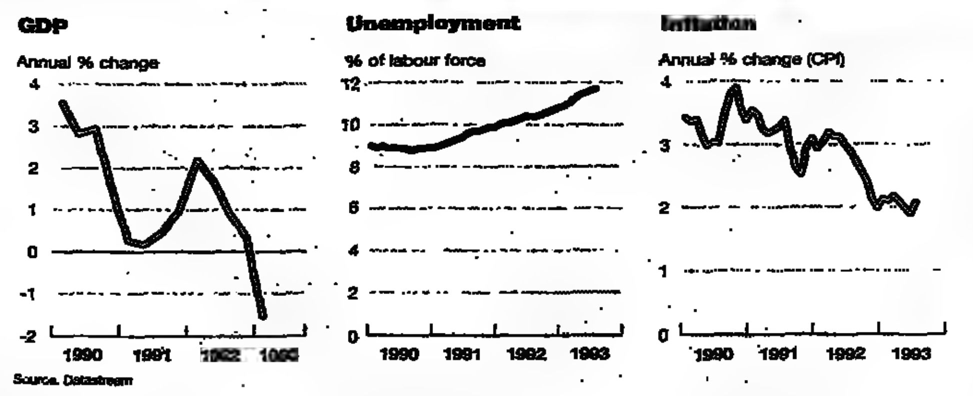
Mr Balladur from this autumn hopes to take advantage of this "saving spirit" by encouraging both the Balladur bond holders and other savers to participate in the government's privatisation programme.

But his government has to balance its desire to secure the success of the share sales against the need to regenerate the consumer side of the economy. Moreover, it faces a tough task in rebuilding consumer confidence given that the toll of job losses shows no sign of stopping and that real interest rates remain high in spite of the recent reductions in borrowing costs.

Finally, the government is hidebound by monetary constraints: by its desire to maintain a reasonably strong franc and to safeguard the process of European monetary union which has made it cautious about cutting interest rates. These issues are also complicated by additional factors such as the uncertainty over France's economic and strategic relationship with Germany, the doubts about the EC's future and the tangled arguments over the Gatt trade agreement.

The economy ministry recently reassessed its growth projections for 1994. It stuck to the initial estimate of 1.4 per cent growth made in June, although it dramatically revised its view of the underlying state of the economy. The ministry has upgraded its expectations for export growth, due to the recent fall of the franc, but has downgraded its forecasts for consumer spending because of the low level of confidence.

All in all Mr Balladur – and the French economy – face a bruising 18 months before the 1995 presidential elections with, or without, the critics of the "ayatollahs of the strong franc".



ITALY

Signals continue to be ambiguous

*The recession has coincided with a significant restructuring of the economy and unprecedented budget austerity. **Robert Graham** reports*

PRESENTING the 1994 budget before the summer break, Mr Piero Barucci, the Italian treasury minister, claimed the recession was "coming to an end".

Yet the economic signals continue to be ambiguous and only on the most optimistic of scenarios will the signs of recovery be detectable in early 1994.

The bottoming out process could well be long and painful. This is largely because, unlike other G7 countries, the recession has coincided with a significant restructuring of the economy and unprecedented budget austerity.

When the recovery begins it is likely to be export-led. Italian companies have really taken advantage of last September's devaluation of the lira and its "temporary" exit from the European exchange rate mechanism (ERM). They have offset a sharp drop in domestic demand by switching to exports. As a result in the first half of 1993 sales to the EC, Italy's main market, rose 11 per cent in value; while overall trade swung from deficit to surplus by a staggering L22,000bn compared to the same period in 1992.

> Without the oxygen of the export boom, the effects of recession would have been more keenly felt

Without the oxygen of the export boom, the effects of recession would undoubtedly have been more keenly felt. Italy has not experienced such a sharp switch to negative growth since the early seventies. The downturn began in mid-1991; but it was not felt until nearly a year later and this year negative growth is projected of around 0.3 – 0.5 per cent.

Demand during the first half of this year, especially for investment goods and consumer durables, dropped 10 per cent. Industrial production for the six months was down 4.2 per cent with an even more pronounced dip in June bringing the index to the levels of mid-1987. As yet, there is no evidence of stock-building.

Confindustria, the industrialists' confederation, hopes production levels have come close to touching bottom but is reluctant to say anything definitive until more data is available. The key to the coming months will be the ability of Italian goods to sustain their competitiveness in export markets.

The cost of the recession has been reflected in squeezed profits and a steep rise in unemployment. In 1992, more than 200,000 jobs were lost in industry and the service sector, and unofficial estimates suggest the figure will be greater this year. Officially, 2.4m people are unemployed, 1m of whom are seeking jobs for the first time. Although the unemployed represent 10.5 per cent of the workforce, this distorts the picture since in the north the jobless rate is down to 6.5 per cent while in certain parts of the south it is more than 23 per cent.

The picture is further distorted by the Italian practice of temporary lay-offs, funded jointly by the government and employers, which can extend for up two years. In the first six months the number of hours covered by lay-off payments increased 26 per cent.

The increase in unemployment has obliged the unions to opt for wage moderation in return for job security. Aided by tight curbs on public sector pay, the level of wage increases has fallen, averaging 4.7 per cent last year and likely to be about 4.4 per cent this year. The trend was formalised in an historic four-year tripartite pact between the government, unions and industrialists on July 3.

The essence of this deal was an agreement that wages cannot match inflation unless increases in pay are directly linked to productivity. This eliminates one of the most damaging aspects of traditional Italian wage bargaining – the automatic linkage of wages to inflation. The next step will be to hold down overall production costs by removing rigidities in the labour market and introducing temporary employment contracts, and ending national pay structures. This promises to be much harder to achieve.

If wage-fed inflation now looks like being a phenomenon of the past, Italy still has one of the highest inflation rates in the EC. Recession has helped curb price increases and largely offset the negative impact of devaluation through most costly imports, (notably energy products paid in dollars). But this year the inflation rate will not come down much below 4.5 per cent with a projection of 3.7 per cent for 1994. This rate of inflation reflects high service costs and inefficiencies in the country's infrastructure.

The fight against inflation will be helped by the Ciampi government's 1994 austerity budget. This plans to hold down the public sector deficit to L144,000bn (L155,000bn in 1993) mainly through cuts in spending rather than new taxes as in the current year. The cuts, raising L28,000bn, will come from cuts in the generous state pension scheme, streamlining the civil service, reductions in health benefits and a virtual block on public sector pay rises.

The budget aims to provide a small primary surplus, underlining that the deficit is essentially the product of the heavy burden of debt service. The mountain of Italy's debt, one third of all the EC debt, remains the weakest point of the economy. The debt stock is due to increase from 110 per cent of GDP to nearly 120 per cent before stabilising in 1996.

The cost of debt service has been helped by the fall in interest rates, each one percentage point saving some L15,000bn in a year. However, the authorities remain caught in a vicious circle.

The business community is clamouring for a further cut in interest rates and a narrowing of the spread between Italian real rates and those among its main trading partners. At present real interest rates in Italy are nearly 5 per cent. Until the difference is narrowed and rates fall further the cost of borrowing remains prohibitive. But equally, Italy needs to maintain attractive rates on government paper to fund the public sector borrowing requirements.

This emphasis on retaining the attractiveness of government paper prejudices the development of the stock market at a time when the bourse needs to expand to cope with at least part of the ambitious plans for privatising state-controlled banks and industries.

The privatisation programme has been far too hastily conceived, with a series of bold announcements to be followed by slow implementation and frequent changes. At last the treasury appears firmly in control of the process and there should be progress.

However, Italy is likely to hold general elections next spring, under a new and predominantly first-past-the-post system. While the government will do all to lock its successor into a continuing policy of austerity and liberalisation, this may not prove so simple.

Eastern Europe

RUSSIA

Year of hope and disappointment

***John Lloyd** looks at a country both moving forward and stuck, trembling on the brink of development, yet still with a deep inhibition at every level*

RUSSIA'S reforms have stalled. Inflation in August reached nearly 30 per cent, production continues to fall (though at a slower rate than earlier this year),foreign investment is estimated to be no more than $1bn in this current year, oil production continues to decline, the budget is in huge deficit and the tax take is falling.

The history of the past year has been one of hope and disappointment – a typical cycle in Russian reform since the late Eighties, when a turn to the market was first adumbrated in the reform-Communist period ushered in by Mr Mikhail Gorbachev. In this context, the hope was the apparent victory within the cabinet for the renewal of a tough macroeconomic policy under the leadership of Mr Boris Fyodorov, deputy prime minister in charge of finance, with the support of other reformers in the cabinet: a policy which had the explicit support of President Boris Yeltsin and, abroad, of the Group of Seven industrial countries, which pledged a headline figure of $44bn to support Russia.

The hopes were raised by the convincing victory won by President Yeltsin in the referendum on trust in himself and his policies on April 25: and further strengthened by his declaration of intent to move to a new constitution and new elections in the near future. A timetable had been mapped out, a structure given, a sense of confidence engendered.

The disappointment has come when these hopes have not been realised. The static conflict between president and parliament which the referendum was thought to have broken has re-formed, more intractable than ever. Inflation, said to have been curbed and brought down to 15 per cent a month, has gone back to 30 per cent: the main reason, say the reform economists, is the continued issuing of credits by the Central Bank in defiance of an agreement with the government to keep credit advances on a declining curve through the end of the year.

Sure it is that a Central Bank with a different philosophy from that of the government is a source of instability: however, it is fair to say that the government itself has lost what coherence it had. At least two rival conceptions of how to run the economy fight it out within the cabinet: one, put up by Mr Fyodorov and nominally accepted by the president, would continue the line of relatively tight controls, while the other, put up by Mr Oleg Lobov, the first deputy prime minister for the economy, calls for extra state investments, an end to voucher privatisation and an explicit acknowledgement that reforms cannot continue through the macroeconomic means once favoured.

In such conditions, the IMF, which has since the beginning of 1992 acted as the facilitator and watchdog of the reform process, has considered itself to have had no choice but to delay implementation of the programme agreed by the Group of Seven in spring of this year. Though no final decision has yet been announced, it seems clear that the second tranche ($1.5bn) of the Systemic Transformation Facility created as a way of injecting support into the Russian budget quickly will not be paid this year – and will not be paid at all until the Russian house is put in order. This may concentrate the minds: and it is possible that reforms will be put back on track.

A clutch of reform-minded Ministers besides Mr Fyodorov - chief among them Mr Anatoly Chubais, deputy prime minister in charge of privatisation – continue to fight, and sometimes to win, battles for the cause of creating a market economy. However, the balance of power seems to be swinging against them: and even if they remain in the cabinet, their authority is narrowing and their useful political lives – at least this time round, for these are young men – appear to be shortening.

It is hard to say, however, how far the demise of this reform group will destroy reform. Clearly, stabilisation of the currency, a real lowering of inflation and the imparting of a renewed dynamism to Russian enterprises are not likely in the near future. Clearly, too, the men who wait to succeed the reformers are those who would continue, albeit in modified form, many of the central-command-economy practices with which they still feel most familiar.

The doubt concerns what has already been released from central control – or rather how amenable it is to coming under control once more. Russia is, at least in part, a European country with a relatively well educated citizenry – the most well educated of which, moreover, are now picking up new methods of work and study as the old system decays about them.

Privatisation, above all, continues – albeit fitfully. Large numbers of small businesses and shops have been privatised. Enterprises of medium and large size are also now coming under the hammer, and some giants are now in the private sector. It is the case that the shops are still as surly as ever and (to Western eyes) uninviting: it is the case, too, that the enterprise culture remains the same, with "private" managers still demanding soft credits from the state to keep often unviable enterprises, or unwanted production, on the road.

But private enterprises are not the same as state ones. The onus has passed to the government to wean the plants off the state by refusing easy credit. Managers may still be kept afloat, but they must also make deals and even find markets in ways they did not before.

It is far from a consumer or an enterprise society: to the new arrival, it appears forbidding, grimy and obsolescent: the barriers and impediments accumulated over decades are too great for a revolution of that kind to happen quickly. But the fact that some movement is visible from below moderates the pessimism gained from the view from above: it gives the observer a double vision, of a country both moving forward and stuck: trembling on the brink of development, yet still with a deep inhibition at every level.

Eastern Europe

Back on the road to economic growth

***Anthony Robinson** looks at the economic prospects for the former communist states*

Real growth of GDP in eastern Europe (%)

	1990	1991	1992	1993	1994	1995	1996	1997
Albania	−10.0	−29.9	−11.0	3.0	3.3	4.9	4.5	4.8
Bulgaria	−9.1	−11.8	−7.7	−4.6	5.1	5.1	4.9	4.6
Czech Republic	−1.2	−14.2	−7.1	−1.6	6.0	6.2	4.4	4.2
Hungary	−3.3	−10.2	−5.0	1.7	4.6	5.7	6.0	5.8
Poland	−11.6	−7.66	1.2	5.0	6.0	4.5	4.3	3.9
Romania	−7.3	−13.7	−15.4	−5.1	2.6	3.1	4.4	4.0
Slovakia	−2.5	−15.8	−8.0	−7.1	3.5	5.2	5.1	4.8
Slovenia	−4.7	−9.3	−6.8	1.6	5.2	5.7	5.6	5.2

Source: PlanEcon Europe Ltd

POLAND, only four years ago a communist basket case par excellence, will this year win accolades as the fastest growing economy in Europe.

Had it not been for a clutch of special factors – the recession in Germany and western Europe, the second consecutive year of drought in Hungary, the one-off negative effect of the divorce between the Czech and Slovak republics, and the impact on Slovenia of the collapse in the former Yugoslav market, Poland would have been accompanied around the top of the European growth league by its neighbours in central Europe as a whole.

Next year, barring disasters, the whole of post-communist Europe outside former Yugoslavia and the former Soviet Union, but including Albania, Romania and Bulgaria, and probably the Baltic states, should return to the path of economic growth.

Statistics prepared by PlanEcon Europe indicate that GDP growth in the region next year will range from a low of 2.6 per cent in Romania to more than 5 per cent in Slovenia and Bulgaria and 6 per cent in Poland and the Czech republic.

If so, next year should mark the start of what could be a prolonged period of self-sustaining growth capable of stimulating the development of a pan-European market from the Atlantic to the eastern borders of Poland.

At that point, the political leaders of the European Community, who were able to escape ultimate responsibility, and the need to offer real leadership during the 45-year Soviet-American hegemony over a divided continent, might finally switch their focus away from the cold-war version of a united Europe enshrined in the Maastricht Treaty, towards serious contemplation of the kind of confederal structure required to accommodate an additional 105m people, and a dozen new member states into an enlarged and restructured European economic and defence community.

Even if they do rise to the occasion, however, the politicians will be far behind the bankers, businessmen and entrepreneurs of Europe, North America and Asia, for whom a pan-European market is already a reality. First prize for market awareness perhaps goes to the German ice-cream manufacturer who now routinely labels the ingredients of his humble ice-lollies in Czech, Hungarian and Polish, in addition to German, French, Dutch, Spanish and English.

This example of pan-European marketing helps to illustrate the thinking which has made the multinational food and consumer goods corporations the spearhead for integrating the former communist states into the global economy.

Throughout the region a raft of new plants have been, or are being built by the big food and detergent groups such as Unilever, Procter and Gamble, Henkel, Nestlé and Sara Lee, rival tobacco companies, such as Philip Morris and BAT, consumer durable companies, such as Electrolux, and the big automobile makers led by Volkswagen, Fiat and General Motors.

Production from new greenfield plants, or from restructured, former state-owned facilities, privatised in the biggest sell-off of state property ever seen, is rising rapidly.

The elimination of subsidies, introduction of internal currency convertibility and adherence to tight IMF-monitored budget deficit limits has also helped shape a macroeconomic framework in which many of the former loss-making state enterprises have been downsized and made more efficient by asset sales, the closure of loss-making sections and job losses.

Relatively few state enterprises have yet been closed down completely, especially in the Czech republic where tight control over public sector wages has enabled state enterprises to keep workers on their books rather than the unemployment register. But throughout central Europe the scale of losses from state-owned enterprises awaiting privatisation has been cut, and in a few spectacular cases, such as the Szczecin shipyards on Poland's Baltic coast, managers have been able to turn

> Relatively few state enterprises have been closed down completely

round loss-making state enterprises before the introduction of a form of privatisation which includes a strong management and worker buyout elements.

General awareness of the scale and speed of the economic transformation of central Europe has been masked to date by the official statistics, the accuracy of which is limited mainly to recording the speed and extent of the decline in output from the big state sector plants.

Perversely, the most rapid transformers, Poland and Hungary, show the steepest rise in unemployment and more than 30 per cent declines in industrial output over the last four years. At the same time rapid inflation, especially in Poland, has wiped out the savings of millions of people.

The emergence of a lost generation of managers and workers who have been sacked from their former secure jobs, lost their savings and found themselves virtually unemployable in the new economy, has placed a huge pension and unemployment payment burden on state budgets.

At the same time, the bad debts of many state enterprises continue to limit the ability of under-capitalised and inexperienced banking systems to satisfy the rising credit demands from the rapidly expanding private sector.

All this means that the transition process is far from complete, while nostalgia for the lost security of the age of socialist mediocrity, coupled with resentment at the emergence of many from the old communist nomenklatura as the new capitalists and entrepreneurs, has embittered the political atmosphere. In Poland, for example, the post-Solidarity parties most closely associated with market reforms, have been unable to capitalise on Poland's current rapid recovery from three years of wrenching recession. Polls show that voters have been swinging back to support for parties with roots in the collectivist past because unemployment remains stubbornly high while the low incomes of millions of ordinary workers keep the new consumer goods tantalisingly out of their grasp.

In Hungary, the main recipient of foreign capital but the most indebted country in the region, the delayed resumption of growth after so much macro and micro-economic change is also undermining the popularity of the conservative government and re-awakening a frustrated nationalism.

Only in the Czech republic, where Mr Vaclav Klaus, the economist turned prime minister has made a deliberate effort to explain the merits of capitalism and the advantages of privatisation to the electorate, have voters clearly given their support for those in charge of still painful reform.

What remains to be seen is how far Nato and the European Community respond to the desire of central Europe's new market-based democracies for full integration.

MIDDLE EAST

Peace dividend may be delayed

The structure of most economies in the region has so far remained immune to the wave of liberalisation elsewhere in the world, writes ***Mark Nicholson***

IN JUST a month, the cast of Middle Eastern politics has been transformed. The signature of an outline peace agreement between Israel and the Palestine Liberation Organisation on September 13, unthinkable a little more than a fortnight before, broke the deadlock in the Middle East peace talks and accomplished the necessary first step for a full and comprehensive regional peace.

Much remains to be negotiated before that dream is reached. Syria and Lebanon must follow Jordan in signing even documents of principle to guide their own talks. But enough has been achieved already to raise serious questions about the future economic cast of the region. Will nascent peace, in particular, encourage greater regional economic integration than hitherto? And might this in turn lead to stronger trade and investment ties with other trading blocs - most particularly with Europe?

History suggests that progress in both cases is likely to be glacial. The first impediment will be political will, which has traditionally been found wanting in any of the few attempts to date to forge meaningful economic blocks, grouping, particularly, the countries between the Gulf and North Africa. Moreover, as the example of the cold peace between Egypt and Israel, now more than a decade old, shows, peace alone is no guarantor of enhanced economic integration. Trade and investment flows between Egypt and Israel, the two biggest economies of this block, remain small and to some extent grudging. As an instance, only 3,000 Egyptians have travelled as tourists to Israel during the whole 14 years of peace.

Peace alone is no guarantor of enhanced economic integration

Another impediment is the very structure of most economies in the region, which has remained steadfastly immune to the wave of liberalisation, privatisation and deregulation which has eroded previously dirigiste economies elsewhere in the world. As Mr Mohamed El-Erian and Mr Shamsuddin Tareq, two International Monetary Fund economists, stated in a recent independent report: "No country in the region may be regarded as having implemented a comprehensive program of wholesale divestiture of public sector enterprises - in contrast to the experience in Asia, central and eastern Europe and Latin America."

As their report emphasises, most countries in the region have been characterised by policies of import-substituting industrialisation, heavy reliance on the state sector and restrictive trade practices. "The private sector came to perform an increasingly residual role in a number of economic and financial sectors, with administrative allocation of resources replacing market signals." Trade regimes, meanwhile, are "characterised by extensive quantitative restrictions, nominal tariffs and cumbersome administrative procedures".

Profound internal reforms would, therefore, be the pre-requisite of any attempts, even given sufficient political will, towards greater regional economic integration. But progress here has also been tentative at best.

Of the countries in the region – excepting North Africa – only Jordan and Egypt have undertaken formal reform programmes under the auspices of the IMF and World Bank. In this respect the Gulf economies are something of a special case, although recent high deficit spending in Saudi Arabia and Kuwait have received IMF attention, even if they have not quite accepted IMF prescriptions.

The course of Egypt's reform programme offers modest hope for optimism. Since resuming previously fractious relations with the IMF in 1991, Cairo has succeeded in completing one agreement and will this month commence a second. In the financial economy, the results have been striking: budget deficits have been slashed from above 20 per cent of gross domestic product to below 3 per cent, inflation has been halved to around 12 per cent, the exchange rate has been stable for two years, interest rates now imply a real cost of money - and are gradually falling - and reserves have accumulated to around $16bn. Import restrictions and tariffs have been considerably eased. New banking and capital market laws have been passed.

These macro-economic gains are likely to be built upon during the three years of the second programme. But deeper structural reforms to the economy have been harder won and far more limited. Indicatively, the government's privatisation programme - thrashed out at great and painful length with the World Bank - is well behind schedule, somewhat mired in bureaucratic complexity and still to address the core public sector industries which dominate at least 70 per cent of Egypt's manufacturing output. "The financial economy is going quite well, but reforms to the real economy are going rather badly," remarks Mr Rodney Wilson, a specialist in Middle Eastern economies at the University of Durham.

The reasons for this are complex and deeply rooted. One is the leaden nature of Egypt's bureaucracy, the poverty of public sector wages and the attendant shortage of high-calibre administrators capable of implementing sophisticated reforms. Another is governmental caution in carrying through reforms which, in the short run, are likely only to increase joblessness in an economy which cannot, already, keep up with the need to create upwards of 500,000 new jobs a year. There is also a structural resistance to opening an economy the closedness of which has created deeply entrenched vested interests - many of them close to the regime itself.

Egypt's reform programme offers hope for optimism

Egypt, therefore, appears unlikely to become any sort of powerhouse for a regionally-based economic revival in the near term. The appetite for reform elsewhere is also limited. According to IMF officials, Lebanon has hinted at the possibility of undertaking some form of Fund assistance. Syria has shown little taste for such yet - although President Hafez al-Assad has in the last year or so gradually begun to dismantle some of the statist economic controls bequeathed by the state's pseudo-socialist Baathist ideology.

But whatever the political, social or structural impediments, there is a desperate need for some shift in economic thinking. Few of the region's economies presently meet fully their peoples' needs - and, in some countries, the worsening shortcomings of the economy provide only an improving platform for anti-government activism, including Islamic fundamentalism. Messers El-Erian and Tareq remark: "The need for sustained and comprehensive policy actions becomes more important in the context of some countries' rapidly growing populations, uncertainties about the prospects for a natural resource base, and the tendency outside the Middle East toward preferential regional trading blocs."

THE MAGHREB

Algeria is being left behind

Economic reform is being tackled energetically in Morocco and Tunisia. But their neighbour has a long way to go to catch up, warns ***Francis Ghilès***

THE contrast between the economies of Algeria, Morocco and Tunisia is now more marked than at any time since these three North African states became independent more than 30 years ago.

Since the mid-1980s Morocco and Tunisia have made considerable progress in restructuring and liberalising the management of their economies. But Algeria, by far the largest, is stuck in a spiral of economic decline and political strife from which its military and civilian leaders appear unable to escape.

Algeria's economic reforms, launched during the prime ministership of Mr Mouloud Hamrouche, aimed at freeing foreign trade, at reinstating the private owners of lands nationalised in the early 1970s, and liberalising the management of a tightly run command economy.

But these policies foundered when the prime minister was dismissed in June 1991. His successor, Mr Sid Ahmed Ghozali, scuppered the agreement with the International Monetary Fund signed in June that year. A year later, the fate of the reforms was sealed by the resignation of Mr Abderrahmane Hadj Nacer, whom Mr Hamrouche had made governor of the central bank.

Mr Belaid Abdesselam, who succeeded Mr Ghozali as premier in the wake of the assassination of President Mohamed Boudiaf in June 1992, was unwilling to usher in the essential economic reforms needed to reach a new agreement with the IMF. Mr Abdesselam, who was sacked last August, was too much a prisoner of his past - he was economic overlord from 1965 to 1978 when Algeria launched a huge but abortive programme of industrialisation and socialisation of agriculture.

His belief in strict state control of the economy, his highly publicised war on corruption, and his largescale subsidies for bankrupt state companies fed a spiral of economic decline.

His successor, Mr Redha Malek, is Algeria's fifth prime minister in five years. Mr Malek seems to have greater prospects of success. But he faces a daunting challenge.

In contrast with Algeria, her western and eastern neighbours, Morocco and Tunisia, are making rapid strides.

For Morocco, the past 18 months have been difficult. GDP fell in 1992 by 3.5 per cent, largely because of drought. But Morocco has now reached the stage at which the IMF would like other countries, such as Egypt, to be.

Since being forced to reschedule its foreign debt 10 years ago, the Moroccan government has cut taxes, tariffs and subsidies. Its budget deficit, as a percentage of GDP, has declined from 12 per cent a decade ago to below 3 per cent. Inflation has been kept below 10 per cent.

Morocco has also avoided the kind of financial dislocation that, in Latin American countries, kept risk premiums on interest rates and currency at high levels long after the original financial problem had been resolved.

More recently, foreign investment in Morocco has risen fourfold to $500m since 1988 and a privatisation programme has been formulated and launched.

The sale of a 51 per cent stake in the Scior cement company to Holderbank of Switzerland earlier this summer was a watershed. So far this year, two thirds of the government's Dirham 2bn ($214m) target for income from privatisations in 1993 has been met. The next companies to be privatised are expected to be the 40 subsidiaries of the sprawling Société Nationale d'Investissement. For the first time last year, receipts from foreign investment into Morocco were equivalent to the deficit on the current account.

This is a far cry from the situation in September 1983, when Morocco was forced to reschedule its foreign debt. At $21.5bn, the present foreign debt remains asignificant burden – total external debt represents 80 per cent of gdp. However, the debt service ratio has been halved to about 34 per cent of exports of goods and services. This was helped by Saudi Arabia's forgiveness of nearly $3bn worth of loans as a mark of gratitude to King Hassan for his support during the Gulf war.

However, Morocco still has much more to change in order to consolidate its gains of recent years. A confidential World Bank report earlier this year pointed out a number of weaknesses:

In Tunisia, Mr Ben Ali has given senior ministers political stability

- The manufacturing base remains at a low 18 per cent of GDP, a level unchanged for the past decade and much smaller than in most fast growing industrialising economies;
- Foreign investment remains limited, accounting for a 10th of total equity;
- Exports are too narrowly based – mostly garments – and have too few markets, notably France.

The report sees two other constraints on business expansion – finance and information. Better business financing means more foreign direct investment, more investment and term lending by foreign and domestic banks, stronger institutional saving to increase the supply of long term deposits. There is also a lack of skilled labour reflecting the fact that the rate of illiteracy among men is only 56 per cent.

Tunisia's path to reform has been smiled on by the gods. In 1987, the elderly and senile President Habib Bourguiba was ushered out of power by his interior minister, Mr Zine el Abidine Ben Ali. In the previous year, Tunisian leaders had been forced by severe balance of payments crisis to grasp the urgency of economic reform. Mr Ben Ali's steady hand has since given senior ministers the political stability essential to successful economic reform.

Four seasons of good rains and bountiful crops have helped Tunisia raise GDP by an average of 6.6 per cent a year over the past three years. That is more than three times the annual population increase and gives the authorities reasonable room for manoeuvre. Buoyant tourist receipts have also helped.

A 6 per cent annual average growth to 1996 will be needed to create the 313,000 new jobs required by the labour market. This is an ambitious target. It must be achieved by rising exports to recession-hit Europe, which takes 77 per cent of Tunisian exports. It also coincides with the economic restructuring which is cutting deeply into the soft underbelly of Tunisian industry.

Tunisians also have a higher standard of education than their neighbours and a better average standard of living.

Critics are concerned, however, at the lack of economic information available to the Tunisian public, the snail like pace of privatisation and the dispersion of economic management among too many different ministries.

India and south-east Asia

INDIA

Infrastructure tops agenda

After 40 years of avowed economic self-reliance, India is opening up to the outside world, writes Stefan Wagstyl

IN TWO SHORT years, the Indian economy has been dragged from the verge of international bankruptcy and put firmly on the road towards sustainable growth.

But the further the country has moved from the economic crisis it faced in mid-1991, the more it has lost speed in its economic restructuring programme.

For a combination of political, economic and social reasons, the government of Mr P V Narasimha Rao, the prime minister, has allowed the momentum to slow. Ministers have made many reforms designed to free the economy, notably liberalising trade rules, reducing the public deficit and introducing a market-based exchange rate. They also plan to do more - including reforming the debt-encumbered banks. But they have shied away from politically-difficult decisions - such as closing loss-making state-owned enterprises and abolishing jobs-for-life labour laws.

In part, the reformers have fallen victim to their own success. From a low point of 1.2 per cent in the year to March 1992, economic growth has recovered remarkably fast to 4 per cent in 1992-93, and a forecast 5 per cent in the current year. Inflation has fallen from an annual peak of 13.6 per cent to about 6 per cent. Foreign currency reserves have jumped from a nadir of just over US$1bn in mid-1991 to US$7.3bn. Exports are soaring - by 27 per cent in the four months to July, according to the latest figures. In these circumstances, it has been difficult for Mr Manmohan Singh, the finance minister, to persuade his colleagues in the ruling Congress (I) party of the urgency of the need for further economic reform.

Ministers have also had other things on their minds. Last year's Rs40bn scandal in the Bombay securities market has been an immense distraction and will continue to occupy time until a Parliamentary inquiry into the affair is finally completed, possibly early next year.

The destruction of the Ayodhya mosque by Hindu militants last December, and the inter-religious unrest which followed has shaken the government to the core. Mr Narasimha Rao's top priority has been to contain the political damage. He cannot risk alienating the public with painful economic restructuring when the Bharatiya Janata Party, the radical Hindu opposition party, seems to be gathering support through its appeal for greater self-assertiveness for Hindus. The immediate challenge comes later this year when elections are due in the four northern states where BJP-controlled assemblies were suspended last year.

In theory, economic reform should have immense political appeal. Only about 25-30m workers and their families - perhaps 150m people altogether - have benefited fully from the socialist-inspired economy built after independence. These are the people who are protected by law from being sacked and who enjoy reasonable standards of living, healthcare and education for their children. The remaining 700m-plus of India's population of 880m largely live beyond the reach of the organised economy and of the organised welfare network. These poor could be the long-run beneficiaries of the increased economic opportunities created by liberalisation.

However, even though India is a democracy, poverty and ignorance prevents the poor from exercising much broad-based political pressure. They have been too easily divided by religion, caste and language. By contrast, organised workers, acting through trade unions and employers' organisations have been able to apply pressure - notably through strikes in support of demands that liberalisation should not put their jobs at risk.

Nevertheless, even trade union pressure cannot put the clock back. After 40 years of avowed economic self-reliance, India is opening up to the outside world by cutting import duties, reforming the exchange rate and promoting exports and inward foreign investment. The licence raj, a panoply of industrial controls, has mostly been dismantled. Despite the securities scandal, financial deregulation has gone ahead, including the liberalising of foreign institutional investment.

Businessmen are planning new projects at an unprecedented rate. Foreign companies are reviving links with old affiliates and partners, and establishing new contacts. Big groups are restructuring operations to cope with the challenge of foreign competition and of raising exports.

So far, this surge in activity has not resulted in any concomitant leap in investment. Industrial production in the year to March grew by a mere 3.8 per cent. Only a modest 5-6 per cent is forecast for 1993-94. Foreign investors have won approvals for projects worth US$3bn, but there is no rush to actually invest the money.

Certainly, large schemes are not completed overnight, or even in a year or two. However, at least part of the delay is due to the fact that companies are not yet convinced of the government's commitment to further reform.

The main obstacle for many companies is the grip that the bureaucracy continues to maintain on the economy. While instructions have gone out from the Cabinet for the abolition of swathes of controls, the officials carrying out the orders are dragging their feet. Also, the very process of reform itself creates new opportunities for bureaucratic intervention. For example, the opening up of investment in power to private companies has generated mountains of documents dealing with the terms under which such companies might operate.

Investors are also concerned about the future of public-sector enterprises which account for about two-thirds of workers in large-scale employment and an even higher share of the nation's industrial capital. The government's policy has been to starve loss-making units of funds to force them either to seek private capital (which very few are strong enough to attract) or cut costs. But the government is unwilling to permit large-scale job reductions. Indian law greatly restricts employers' rights to dismiss workers. Ministers late last year came close to reforming labour legislation - but retreated just before the Ayodhya outrage. Without reform, the public sector will drain resources from the rest of the economy. It will also hold back private companies because of the inefficiency of many of its services - such as telecommunications and banking.

Finally, India's growth potential will be limited without further investment in infrastructure and in social services such as education. The government has made infrastructure investment a priority but it lacks the money to fulfil its aims because of the general squeeze on public spending. The position in power is particularly acute - capacity rose just one per cent last year. The government would like private companies to help close the yawning gaps in India's infrastructure. But the provision of public services is precisely the area which the bureaucrats and public sector trade unions hold most dear.

Spending limits on education and other social services are equally tight. India has long spent less on primary schools than many other developing countries, including China, and is only now beginning to redirect its resources. The result is that India's literacy rate is still only 48 per cent against China's 73 per cent. Without better education, the poor cannot get jobs nor learn about basic health care, including birth control.

India has done enough in the last two years to encourage fast growth in important cities such as Delhi, Bombay, Bangalore and Madras. But without further reforms - and infrastructure investment - it is difficult to see how fast growth can be sustained even in these centres let alone spread into less prosperous regions.

India: key indicators[1] (%)

	89-90	90-91	91-92	92-93[2]	93-94[3]
GDP growth	5.6	5.2	1.2	4.0	5.0
Fiscal deficit	7.9	8.4	6.0	5.7	4.7
Inflation	9.1	12.1	13.6	7.0	5.8

1 Years to March; 2 Government estimates; 3 Government projections. Source: Ministry of Finance

Profile: MANMOHAN SINGH

Economist who turned the tide

India's finance minister has skilfully maintained the momentum of the most radical programme of reform in the country's independent history

TO REVITALISE and open up an economy such as India's is a massive task.

First, there is its sheer size. Then, there is the scale of inefficiency and corruption resulting from more than 40 years of Nehruvian policies of socialist self-sufficiency. Finally, there is the pressure arising from deep-rooted social problems and fever-pitch politics.

Since June 1991, this has been the lot of Mr Manmohan Singh, the finance minister. A quietly-spoken civil servant who had held top economic posts, he was the only non-politician appointed to Mr P. V. Narasimha Rao's 58-member cabinet. India faced a financial crisis, and as an internationally respected technocrat, Mr Singh was the man to deal with it.

His manner of dealing with the crisis, however, was to initiate the most radical programme of economic reform seen in India's independent history. It is still proceeding, and he is still in charge of it. Commentators inside and outside India have been ready throughout Mr Singh's tenure to write the obituary of yet another half-hearted attempt to clean up the economy. But they remain frustrated.

Born in 1932 at Gah in the Punjab – now in Pakistan – Mr Singh won the Adam Smith prize at Cambridge in his early twenties. In 1972 he was appointed economic adviser in the finance ministry and in 1982 became the governor of the Reserve Bank of India.

His career took an international turn in 1987 when he became secretary-general of the South Commission. By 1991, when Mr Rao selected him to deal with the balance of payments crisis, he had retired to the calm of the University Grants Commission.

Mr Singh's career had put him, therefore, in a key executive role enacting government policies of which he must have been at least dubious. According to Professor Jagdish Bhagwati, of Columbia University, Mr Singh had long favoured export promotion as the best means of producing economic growth and efficiency.

However, successive governments pursued policies of import substitution, characterised by high tariff barriers, protection for Indian industries, and a large state presence in the economy – overseen by all-powerful ministers and bureaucrats.

The potential for inefficiency and corruption in such a system was amply realised. Although it had been devised to protect the poor, they had suffered while the privileged professionals and protected tycoons prospered.

Mr Singh, a man of unquestioned integrity, had seen this process at close quarters. At the same time, he had admired the success of countries such as South Korea which had depended upon export growth. When the task fell to him, he was evidently all the more determined to turn the tide.


Manmohan Singh: shown himself to be an adroit politician

The wind has been behind him. Three factors have been in his favour. When he took over, India was bankrupt, with foreign exchange reserves exhausted and Indian state-owned banks having trouble meeting their commitments in the international money markets. If a Mexico-style debt crunch was to be avoided, drastic and immediate measures were needed. Both Mr Rao and Mr Singh clearly decided India could not afford a debt default.

Mr Singh has also enjoyed the support of Mr Rao throughout. Although the tenure of Mr Rao, an experienced party hand appointed to lead the Congress party after the assassination of Rajiv Gandhi, has sometimes appeared shaky, he has managed to hold on.

Finally, there has been little significant opposition – in spite of nationalist noises made by the opposition Bharatiya Janata Party – to the principle of opening up the economy and reversing a malaise which had been generally recognised by the Indian elite.

Mr Singh's achievements are considerable. He has abolished the "license raj" under which virtually every corporate decision needed bureaucratic sanction. He has removed most barriers to foreign investment. He has lowered tariffs and floated the rupee. Much more is under way, including urgently needed reforms of the financial sector and of the tax system.

The economic effects of these changes have been slow to come through. Growth has accelerated, although not spectacularly, inflation has come down and the rupee has been remarkably stable since it was freed. But industrial production and exports have been slow to pick up. Foreign investors have been cautious, although signs are emerging of steadily growing interest.

Moreover, Mr Singh has been slow to tackle some areas of reform because of entrenched political opposition – principally labour reform and privatisation, both of which would shake up the bloated public sector as well as introducing keener competition in the private sector.

Mr Singh's skill, however, has been in never underestimating his task. He has correctly judged the political forces against him, carefully sought to build a consensus for needed reforms, and enacted them as he could.

Although this has meant that progress has sometimes been slow, the government has not lost the momentum of reform. This is partly because in some areas, such as the convertibility of the rupee, Mr Singh has been prepared to force the pace.

Perhaps most surprisingly, Mr Singh has shown himself an adroit politician. His third budget, unveiled in February after a period of brutal social and political strife, won praise as a political conjuring trick. He managed to cut interest rates and import duties while boosting spending on education, agriculture and infrastructure, without increasing government borrowing.

Many economists believe it would be virtually impossible for India to turn back to its old ways, even if reforms suffer setbacks in future years. If this is true, Mr Singh will have played a key role in changing India's destiny.

Alexander Nicoll

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SOUTH-EAST ASIA

Success brings problems

***Victor Mallet** doubts whether the world's healthiest economic region, performing robustly this year, can still take exports for granted as the engine of its progress*

LAMBASTED FOR the failure of their lending programmes in Africa, World Bank and IMF officials have an understandable habit of pointing to their present and former protégés in Asia and saying: in the right conditions, the recipe works.

South-east Asia, already a byword for export-led economic growth, is performing robustly this year, in spite of the sluggish state of the region's main export markets in Europe, Japan and the US.

Exports continue to increase, and debt service ratios are falling. The Asian Development Bank estimates south-east Asian debt service, as a proportion of exports, will decline to 11 per cent in 1994 from 13.3 per cent this year and 15 per cent in 1992. At the start of the decade the figure was 18.5 per cent.

Growth is strong, too. Excluding China and Japan, average real gross domestic product (GDP) growth across Asia is expected to rise from 5.2 per cent in 1992 to 6 per cent this year and 6.8 per cent in 1994, according to a forecast from Merrill Lynch. The Philippines, suffering from chronic electricity shortages, is a dismal exception to the generally rosy picture, and is expected to grow by only about 2 per cent in 1993.

Part of the resilience of these economies in the present global economic climate can be explained by the increase of trade within Asia, especially with China.

South-east Asian countries have also become important markets in their own right, and the growth of some economies owes more to the state of the domestic market than to the performance of exports.

In Manila, Jakarta, Kuala Lumpur and Bangkok, infrastructure is creaking

Thailand, for example, is now a bigger market for new cars than Australia. "In the second half of the 1980s, a third of growth was due to exports," says Mr Narongchai Akrasanee, who heads Thailand's General Finance group. "Now it's one tenth."

Having long ago embraced the basic tenets of capitalism and actively encouraged inward foreign investment, south-east Asian economies are becoming increasingly sophisticated. As they do so, the World Bank becomes more important as an adviser than as a lender. Local capital markets have grown rapidly and become more complex, and Thailand and Malaysia have recently established commissions to regulate the securities industry.

Outward investment – with China and IndoChina as the main targets – has also become a regional phenomenon: the Singapore government, for instance, encourages its emerging multinationals to invest overseas as a way of diversifying the country's sources of income. Thailand's Charoen Pokphand group is one of the largest foreign investors in China and has stakes there in everything from motorcycle factories to feedmills.

South-east Asia's dazzling GDP growth rates, however, are accompanied by several serious problems and challenges which have yet to be addressed in most of the countries concerned. Some of these worries are simply the result of competition for investment and trade from countries a few rungs lower on the economic ladder. Officials in Indonesia, Malaysia and Thailand are concerned about falling foreign investment, which they blame on competing demands for funds from China and Vietnam.

Apart from its enormous and attractive domestic market, China offers a plentiful supply of cheap if relatively unskilled workers. In Malaysia, labourers and skilled workers are in short supply and wages are rising fast; in Thailand, too, wages are rising more quickly than productivity.

Ceaseless export growth can therefore no longer be taken for granted as the engine of economic progress in south-east Asia.

The value of Thai exports in the first half of this year rose only 10.6 per cent over the same period in 1992, well below official predictions. A fall in agricultural exports such as rice and tapioca is partly to blame – electronics exports are still rising – but economists are now making more modest predictions for future Thai export growth.

As Asian exports of various products increase year by year from the insignificant to the substantial, they typically encounter greater resistance and protectionism from the governments, industries and trade unions of importing countries, and thus become the victims of their own success – a success often based, it must be said, on the exploitation of cheap and under-age labour, unsafe factories and a willingness to violate intellectual property rights.

Success creates other problems, too. Asian countries are carrying out an industrial revolution – which took decades in Europe and America – in a matter of years.

From Manila and Jakarta to Kuala Lumpur and Bangkok, infrastructure is creaking under the strain. Power shortages have become widespread. It can be difficult to have a telephone installed and then difficult to make calls. Traffic jams are the bane of the region's capitals. Economic success has brought pollution and other environmental damage.

The economic effects of infrastructure bottlenecks are hard to gauge. On the one hand, industrial investors are deterred by clogged transport and communications networks. On the other, such problems are common throughout the region; and the need for everything, from roads and sewage farms to better universities, creates business opportunities and further accelerates economic activity when construction begins.

Throughout south-east Asia – with the exception of Singapore – governments are also accused of failing to invest in the secondary and tertiary education that will be vital for the region's economies in the years ahead.

Nor has the new-found wealth been evenly spread. Asia's *nouveaux riches* pay little tax, and the rich have usually been getting richer much faster than the poor – a tendency forgotten in times of generalised prosperity, but one which may cause political instability in a recession.

South-east Asia's industrialisation has depended on a marriage between cheap local labour and the money and technology of Japan and the West. As wages rise and investors turn to China, the Thais, Malaysians, Indonesians and Filipinos are beginning to ask themselves what they have to offer that cannot be found elsewhere.

They have land and they have growing domestic markets, but pollution and congestion in big cities are making life grimmer for Asia's burgeoning middle class. Above all, schools and colleges are not teaching the skills that business and industry say they need. Such problems will have to be solved if the spectacular economic growth of the last decade is to be sustained into the next millennium.

DEVELOPING ASIA: selected indicators[1]

	1990	1991	1992	1993[2]	1994[2]
Gross domestic product			Annual % change		
Developing Asia	5.9	6.1	7.0	7.2	7.4
Newly industrialising economies	6.9	7.3	5.3	6.2	6.7
PRC and Mongolia	3.9	7.5	12.8	11.0	10.0
South-east Asia	7.7	6.3	5.8	6.5	7.1
South Asia	5.2	2.1	4.7	5.3	6.0
Pacific Islands	-0.4	5.3	6.7		
Inflation			% change in CPI		
Developing Asia	7.1	8.4	8.7	6.9	8.4
Newly industrialising economies	7.0	7.6	5.9	5.4	4.9
PRC and Mongolia	1.3	5.1	8.4	9.0	8.5
South-east Asia	7.3	8.8	5.3	6.6	6.4
South Asia	12.7	13.3	9.7	8.2	6.5
Pacific Islands	7.4	7.1	5.1		
Current account			$bn		
Developing Asia	-8.2	-5.2	-8.5	-13.4	-19.2
Newly industrialising economies	10.8	6.8	5.8	6.0	5.5
PRC and Mongolia	11.4	13.7	10.4	5.7	-0.4
South-east Asia	-14.9	-17.4	-14.2	-14.6	-14.3
South Asia	-13.3	-8.0	-10.7	-10.5	-10.0
Pacific Islands	-0.1	-0.3	-0.2		
Debt-service ratio			% of goods and services exports		
Developing Asia	16.0	13.9	14.1	13.1	11.3
Newly industrialising economies	10.7	7.1	10.9	10.3	6.8
PRC and Mongolia	11.6	12.0	11.0	10.5	10.0
South-east Asia	18.5	15.5	15.0	13.3	11.0
South Asia	26.0	26.0	23.7	23.5	24.6
Pacific Islands	24.8	17.8	11.6		

1 Computation of averages excludes Mongolia, Cambodia, Lao PDR, Vietnam, Bhutan and Myanmar; 2 Estimates. Source: AD

KOREA

Cleaning up, slowing down

*The vigorous anti-corruption campaign being pursued by the new president is likely to delay a full-scale recovery until next year, says **John Burton***

THE ONCE-BOOMING South Korean economy is suffering its slowest period of growth since 1980. The GNP growth rate in 1993 is expected to fall below 5 per cent for a second consecutive year, making Korea one of the worst performers on the Asian mainland.

Last year's sluggish economic growth rate of 4.8 per cent resulted from a tight monetary policy aimed at reducing inflation. But economists believe that Korea is on the road to recovery, having hit bottom in the last quarter of 1992 with a dismal growth rate of 2.8 per cent.

The government since then has eased monetary controls. Growth has been gradually accelerating, with rates of 3.4 per cent and 4.2 per cent in the first and second quarters respectively.

However, the vigorous anti-corruption campaign being pursued by the new president, Mr Kim Young-sam, is likely to delay a full-scale recovery until next year, when the growth rate is expected to exceed 6 per cent. In particular, the president's sudden decision in mid-August to ban the tax dodge of using false names for financial transactions has had an adverse impact on growth.

The prohibition on false names strikes at the heart of the country's large underground economy, whose size is estimated to be 20 per cent of GNP. Although the underground economy deprived the government of needed tax revenues, it also played a constructive economic role by providing scarce capital for small businesses and supporting consumer spending.

President Kim's programme to root out the underground economy will consequently cause economic disruption in the short-term by reducing domestic demand, which is already weak.

Industrial investments have shrunk by 7.2 per cent during the past year after a long period of facility expansion since the mid-1980s that resulted in excess production capacity.

The Kim government earlier this year tried to revive industrial investments by cutting interest rates, but to little avail. Sagging domestic consumer demand has convinced most companies that sizeable plant investments are not necessary immediately. Moreover, interest rates are climbing again, with the three-year bond rate reaching 14 per cent.

Holders of false-name bank accounts largely financed the informal kerb market that is a main source of credit for small businesses, which have difficulty acquiring bank loans due to a lack of collateral. But the crackdown on false-name accounts has caused a drain of liquidity from the kerb market, resulting in a rising number of bankruptcies among small concerns.

Big companies have also had difficulties in raising capital recently as the false-name ban has dampened activity on the bond market.

Consumer spending is unlikely to be much help in boosting growth this year. Consumer confidence is weak as the unemployment rate rises to almost 3 per cent, a high figure for Korea. Although the government has succeeded in curbing wage growth in 1993 to around 11 per cent against an average annual rate of 16.4 per cent during the past six years, it also means that consumer purchasing power has shrunk.

In addition, the government has been promoting an austerity campaign since 1991 in an attempt to persuade the public to work harder and spend less. The campaign has affected foreign goods in particular since the government regards them as being luxuries.

The economic slowdown has had one beneficial effect in that it has curbed the inflation rate to around 5 per cent from a decade-long peak of 9.3 per cent in 1991. Price stability has been supported by weak consumer demand, lower wages and stagnant property prices. But even this achievement is under threat. The government is increasing the money supply to provide small companies with more capital and save them from possible bankruptcy.

One bright spot is an export boom caused by a near-20 per cent fall of the won against the yen

The one bright spot in Korea's economic picture is an export boom that has been caused by an almost 20 per cent fall of the Korean won against the Japanese yen since the beginning of the year. This has restored price competitiveness to Korean products, which have lost market share abroad in recent years as wages climbed to the highest level on the Asian mainland while productivity lagged behind.

Korea has seen recent gains against Japanese competitors in the areas of cars, semiconductors, consumer electronics, shipbuilding, and iron and steel. The trade surplus is likely to post a slight surplus this year after four years of deficits.

But the country is still in danger of falling behind foreign competitors, such as Japan and Taiwan, in the global export market, because it has done little to secure cheaper production bases abroad or building international marketing networks. Korea's total direct foreign investment of $4.5bn represents only 1.6 per cent of GNP, while Taiwan has invested more than 3.5 per cent of its GNP overseas.

One reason for Korea's slow investment expansion abroad is that it has suffered current account deficits during most of the past two decades, which has depreciated the value of the Korean won and made it more expensive to invest overseas. Moreover, the government has encouraged companies to invest at home rather than abroad in order to boost economic growth.

VIETNAM

Rapidly growing richer

Victor Mallet examines hopes of another economic miracle in the making

VIETNAM is still one of the poorest countries in the world, but it is rapidly becoming richer. In the imagination of investors, if not yet in reality, this country with an annual gross national product of only about $200 per person is poised to join the ranks of south-east Asia's miracle economies.

Since 1986, the communist government has pursued an economic reform policy known as *doi moi*, or renovation. The reforms have been accelerated by the collapse of Vietnam's erstwhile ally the Soviet Union and by a surge of foreign investment from Asian and European companies.

The results are spectacular. Price liberalisation and land reform allowing farmers effective ownership of their fields have boosted agricultural output and made Vietnam the world's third largest rice exporter, after the US and Thailand.

The capital Hanoi, once an elegant but glum northern city of crumbling French villas and wide boulevards, becomes busier and noisier by the month; Ho Chi Minh City (formerly Saigon), already Vietnam's principal commercial and industrial centre, is booming.

Last year real economic growth in Vietnam exceeded eight per cent, and in 1993 the figure is likely to be around 7.5 per cent. Industrial production and exports continued to rise in the first half of this year. The dong, the Vietnamese currency, has meanwhile remained stable against the dollar and inflation has fallen.

Until recently the main obstacle to further economic progress was - in the eyes of the Vietnamese government and foreign donors - the US refusal to countenance assistance to Vietnam from the international financial institutions such as the World Bank, the International Monetary Fund and the Asian Development Bank.

Vietnam's transport and communications infrastructure is in desperate need of repair and expansion. For market-oriented industrialisation to succeed, the country and its foreign backers will have to spend billions of dollars on everything from ports and airports to telephones and power stations.

The Clinton administration finally yielded to pressure from other IMF lenders and withdrew its objections to multilateral aid for Vietnam in July. This should allow the "Friends of Vietnam", led by Japan and France, to pay off Vietnam's IMF arrears of some $140m through a combination of bridging finance and bilateral aid.

A recent meeting of the support group in Paris was unable to agree on how much of the arrears should be met by the bridging loan (which would be quickly repaid by funds from the first, short-term IMF programme for Vietnam) and how much by the donors, but the participants are due to meet again at the time of this month's IMF/World Bank conference.

Multilateral and bilateral donors are then expected to meet in Paris on November 9 and 10 for a pledging session for Vietnam - the country's first - which could raise $1.2bn to $1.5bn.

Vietnam's difficult transition from a communist command economy to free enterprise is greatly assisted by its existing oil industry (which accounts for two thirds of exports). At the same time the country's promise as a future Asian economic "tiger" is enhanced by the well-deserved reputation of its people as hard-working and literate.

It was perhaps, inevitable that a reaction would set in among investors as they began to realise that Vietnam had a long way to go before its reached the level of say, Thailand or Malaysia.

"It's a little too easy to get too excited about Vietnam's prospects," says Mr Bradley Babson, the Bangkok-based regional World Bank chief. "It's not going to be a piece of cake and I think we should be quite up front about that."

Wages are attractively low for businesses but Vietnam does not have the capacity – in terms of officials, local entrepreneurs or physical infrastructure – to absorb immediately all of the capital that foreigners want to invest.

The US economic embargo which remains in place – President Clinton eased it on September 13 to allow US companies to compete for projects funded by the World Bank and the ADB – is of more concern to frustrated US companies than to the Vietnamese, who are struggling to absorb investment capital from other sources as far apart as Taiwan and France.

Vietnam has licensed more than $6bn worth of foreign investment projects so far, but only a quarter of this amount has actually been committed by the investors.

Privatisation is moving much more slowly than expected, and Vietnam is encountering problems with its state industries which are typical of the former Soviet block.

According to the Chamber of Commerce and Industry, the number of state enterprises has been reduced by mergers and liquidations in the last 18 months to 7,000 from 12,000, but economists say only a quarter to a third of state enterprises are profitable. Many of the rest are so run-down that no-one wants to buy them. Unemployment is one of the government's biggest concerns.

Private Vietnamese companies have emerged since the government relaxed its grip on the economy, but most of them are tiny businesses involved in the retail trade and other services rather than manufacturing.

Large projects, whether they are wholly Vietnamese or joint ventures with foreign partners, still tend to be the preserve of state or semi-state organisations; the army, for example, owns one of the best-known hotels in Hanoi, and the city's new fleet of metered taxis comes under the control of the city's communist people's committee.

Corruption, as the government has acknowledged, is becoming increasingly widespread as wealth increases.

Foreign donors and reformist Vietnamese officials say two of the most urgent priorities to ensure continued economic growth are the establishment of commercial laws - to cover bankruptcy procedures and contractual obligations, for example - and the development of a strong financial sector.

VIETNAM: principal economic indicators

	1990	1991	1992	1993[1]	1994[1]
Gross domestic product (% change)	5.1	6.0	8.3	7.5	8.2
Agriculture	1.5	2.2	6.3	3.6	3.8
Industry	2.8	8.8	10.9	11.5	12.4
Services	10.3	8.3	8.6	8.8	9.7
Gross domestic investment (% of GDP)	11.5	11.6	12.0	12.7	13.5
Inflation rate[2] (% change in CPI)	67.5	67.6	17.5	14.0	12.0
Merchandise exports ($bn)	2.4	2.0	2.5	3.0	3.7
% change	23.5	-18.0	25.8	22.2	22.0
Merchandise imports ($bn)	2.8	2.2	2.5	3.1	4.0
% change	7.3	-20.2	14.1	24.7	28.0
Current account balance ($m)	-200.0	-82.9	212.6	170.0	10.5
% of GDP	-3.6	-1.3	2.3	1.5	0.1
External Debt ($bn)	14.6	15.3	15.4	16.6	17.5
Debt service ratio (% of exports)	5.5	5.6	7.5	8.0	8.5

1 Estimates; 2 Refers to year-on-year data

Source: ADB and General Statistical office, Vietnam

CHINA

Fingers crossed for soft landing

Alexander Nicoll sees positive signs in the country's reform programme

IN THE 15 years since Mr Deng Xiaoping launched China's economic reforms, the country has repeatedly lurched from boom to bust and back again. Each burst of reform has let loose economic forces which have run riot because it is impossible simply to replace one system of control with another.

The old central planning machinery cannot cope with the market forces unleashed by reform, but new methods of macroeconomic control suited to a market economy are still missing. Periodic bouts of austerity – and political setbacks for reformers – have been the inevitable result.

This time, however, many fingers are crossed that it will be different. The government has since the middle of the year been seeking to restrain growth after another extraordinary boom caused evident over-heating, with inflation and the trade deficit rising, the currency declining on unofficial markets and spending on new fixed assets running out of control.

Officials who strongly back reform, instead of being forced to take responsibility for faster inflation and shortages of goods as in the past, have managed to remain in charge of the economy's slowdown.

So far – it is still too early to make a reliable judgment – the signs are positive. Mr Zhu Rongji, the vice-premier in charge of the economy, may be able to achieve a soft landing while at the same time advancing the cause of reform. He has curbed activities which were causing speculative and inflationary bubbles – property, construction, stock markets – by exerting much tighter control over finance. Rather than stopping reforms he has taken the opportunity to begin significant changes to the financial system.

Success in this very difficult task would be a step forward of inestimable value for China. It would narrow the wild fluctuations in economic growth which cause disruption and hardship for many Chinese. It would also lay the foundation for the country to become an economic superpower.

China's progress so far is becoming a familiar story. It averaged 9 per cent annual growth in the 1980s even after two bouts of austerity. Reform resumed quietly soon after the Tiananmen Square massacre in 1989, and was given a shove forward by Mr Deng's visit in early 1992 to southern China, which has seen the fastest growth. Economic growth last year was 12.8 per cent and is likely to be around the same this year.

Last year alone, China contracted for foreign investment worth $58bn and actually used $11bn, according to official figures. Even allowing for exaggeration in official figures, this represents a substantial inflow which has come largely from ethnic Chinese businesses outside the mainland – though many western companies are also keenly interested.

Investment from Hong Kong and Taiwan has led to the term greater China being applied to the tri-partite area, though the three territories remain politically and economically separate.

Hong Kong and Taiwan companies have been seeking to transfer manufacturing capacity on to the mainland to take advantage of cheap labour. China is keen to welcome the investment both for commercial reasons, and with its aim for political re-unification in mind. Hong Kong, which reverts from British to Chinese sovereignty in 1997 though it will retain economic autonomy, is increasingly linked to the mainland by two-way investment and trade.

Foreign companies are attracted to China by its huge potential both as a low-cost producer and as a market for goods. Increasingly, they have confidence that the opening of the economy will be durable and will go further.

China's industrial growth is being generated mainly by the non-state sector, chiefly involved in lighter industries. It has been assisted by relaxation of most price controls, greater mobility and availability of labour, freedom to deal directly with foreigners and in foreign currencies, and a host of other reforms.

However, this is taking place when a great deal of the economy is still subject to old constraints. State-owned enterprises still depend largely on central control and financing by state-owned banks. The budget deficit is large and rising because of public sector spending and the need for sweeping tax reform. The financial system is struggling to learn disciplines which were unnecessary when it existed simply to bankroll the state system.

One of the chief challenges facing the Chinese government is to introduce new means for macroeconomic control without backtracking on reform. This is what Mr Zhu is attempting. Backed by advice from the World Bank, he identified the central bank as the best place to start and took over as its governor in July with the aim of beginning a complete overhaul of the banking system. He has raised interest rates and demanded that banks call in speculative real estate loans.

Mr Zhu has acted to close down thousands of areas designated by local authorities as development zones. These were sucking in huge amounts of fixed asset investment – contributing to heavy demand for goods such as steel – as well as weakening the state's financing by avoiding taxation, and enriching local officials. Fixed asset investment increased 70 per cent in the first seven months of 1993, compared with the same period of 1992, and Mr Zhu has announced that it should be restricted to important infrastructural projects.

Even assuming that the measures to cool the excesses of the boom are successful, much remains to be done. The government has begun the social reforms needed to separate state-owned enterprises from their obligation to provide an iron rice bowl to employees and their families. The enterprises need to learn management and marketing skills, and the haemorrhage of their finances has to be stopped.

Though China's reformers do not have to answer to an electorate, their whole agenda is fraught with political uncertainty. A power struggle will loom when the frail, 89-year-old Mr Deng departs the scene. Mr Zhu is a forceful man with an evident grasp of the economic requirements, but his own political position could come into question, particularly if Mr Deng were to die soon.

THE ASIAN OUTLOOK IN 1993

	Real GDP growth %	Inflation %	Prime rate[1] (% pa)	Current account (% of GDP)	Exchange rate[2] (% change)
China	13.9	12.2	n.a.	0.2	-11.3
Hong Kong	6.3	10.3	6.8	0.3	0.0
India	5.4	6.6	16.0	-2.4	-26.9
Indonesia	6.6	7.8	13.5	-0.8	-3.5
South Korea	5.4	5.3	11.5	-0.8	-3.1
Malaysia	7.2	3.9	7.8	-0.2	-2.7
Philippines	[illegible]	7.8	13.5	-2.2	-11.0
Singapore	6.9	2.2	5.9	4.4	+0.9
Taiwan	6.9	3.8	8.8	2.2	-1.4
Thailand	7.6	3.8	10.8	-6.1	-0.9

1 Year-end rates: 12-month deposit rates in case of Indonesia and government bond yields. 2 (+) appreciation, (-) depreciation against the US dollar

Source: Merrill Lynch

Africa and Latin America

LATIN AMERICA

The floodgates have opened

*International capital is pouring in after 10 static years, writes **Stephen Fidler**. Digesting it, rather than attracting it, is now the main problem*

LATIN AMERICA has made an unexpectedly rapid return to favour in the international market for capital after a decade of recession brought on by economic mismanagement and a resultant excessive build-up of debt.

Following 10 years in which access to foreign capital was severely restricted, many countries are now suffering from the opposite problem: a surfeit of capital inflows. These inflows have often artificially elevated exchange rates, thereby helping to suck in imports and hurt exports, and swollen the money supply, making more difficult the task of curbing inflation.

In the first six months of this year, borrowers in Latin America raised $10.7bn in foreign bond issues alone, more than in the whole of 1992. Other capital entered the region in the form of equity investment – into stock markets, into privatisations and increasingly new share issues and some into direct investment in new production capacity – and in bank deposits, this to take advantage of monetary policies which have been keeping real interest rates high.

A complex combination of factors internal and external to the region has been behind this change of heart by international capital. Externally, low interest rates on bank deposits in the US have encouraged an outflow of funds to Latin America to take advantage of high interest rates.

The flow of funds into banks in most Latin American countries, regardless of economic performance, has led to suggestions that the phenomenon of capital reflows to Latin America has had little to do with the region's economic reform programmes. Instead, a former Latin American government minister has suggested that interest rate differentials have been high enough to encourage funds to flow to Mars.

A complex combination of factors internal and external to the region has been behind a change of heart by international capital

It has also been argued that the weak performance of other traditional asset markets in the industrialised world has led investors of all types to seek higher returns in new markets.

This raised the question of the sustainability of these capital flows when conditions in markets outside Latin America improve.

Fears that the flows would cease have been partly answered by the continuation of capital flows into the region even as stock and bond markets, particularly in the US, have been performing strongly. Indeed some investment specialists argue that the trend towards increased investment into all so-called emerging markets is, if not a permanent phenomenon, part of a long-run cycle which will take years to go into reverse.

Mr Michael Howell of Baring Securities in London points out in a study of cross-border capital flows that: "Capital left the old world in roughly five waves from the mid-1840s: 1845-54, 1863-72, 1881-90, 1903-14 and 1919-24." Capital flows in 1992 could have more in common with what happened 100 years ago than in 1982, he suggests.

Supporting this contention, there is growing evidence that traditionally conservative institutional investors in the US and in Europe are entering the market for Latin American assets in increasing force.

Inside the region, it is now clear that the debt crisis of 1982 set off more than almost a decade of recession. It also began a process of economic reform which has led governments first to improve macro-economic management, for example by bringing budget deficits more into check, and second to open up the economy more to the forces of the market.

In many countries, this has taken the government out of many areas of economic endeavour. The changes have also brought down tariff barriers and abolished import quotas, paving the way for the development of regional free trade arrangements. These trade arrangements, led by the North American Free Trade Agreement which groups the US, Canada and Mexico, offer the prospect over time of transforming economic relations among countries in the Americas.

This has meant that Latin Americans themselves have been an important, if not the main, source of external capital as they have repatriated money placed abroad in preceding decades to protect it from arbitrary government and economic mismanagement.

All this has produced a resumption of economic growth in most countries of the region. That growth remains positive for most countries, according to a majority of economic forecasts this year, even though it appears to be slowing down in a number of important economies.

Still, a July survey of economists forecasts by the British group Consensus Economics suggests growth for the region this year of 3.4 per cent (3.3 per cent without Brazil) and 3.0 per cent next year (3.4 per cent without Brazil). This compares with forecasts of 2.6 and 3.2 per cent for North America and -0.5 per cent and 1.5 per cent for Europe.

Public investment is widely seen as necessary to provide skilled labour for the needs of the investors of the 1990s

But if Latin America has turned the corner, it is still in the woods. The 1980s saw a significant drop in real incomes and a deepening of the problems of poverty so that as many as 180m of the continent's 460m population may now be in poverty. The 1980s also saw a further collapse in the ability of government adequately to perform even its slimmed-down role.

In many countries, military rule had already eroded the pillars of government during the 1970s; governments' ability adequately to fund educational, health and social programmes deteriorated further in the 1980s economic crisis. Public investment, especially in education, is widely seen as necessary to provide skilled labour for the needs of the investors of the 1990s. Only with education, it is argued, can poverty be reduced and economic growth be converted into development.

Looking ahead, the central question is therefore whether the economic reform will yield sufficient benefits quickly enough to a broad enough group of people for them to reject populist economic solutions in countries which, in contrast to a decade ago, are primarily ruled by elected governments.

The answer to this will in part hang on how much of the renewed capital flows will be channeled into productive investment and how much will go into consumer spending which will produce an initial spurt of growth but provide no long-term prospects for its continuation. Unfortunately, government statistics in much of the region are not reliable enough to draw firm conclusions about what these capital flows are financing.

Sub-Saharan Africa: % share of primary agricultural commodities (African share of world production)

Commodity	1969/71	1988
Coffee	32	21
Cocoa	72	59
Tea	12	17
Sugar	7	8
Bananas	6	3
Citrus fruit	10	8
Rice	2	2
Coarse grains	7	8
Palm oil	55	14
Groundnuts	32	18
Cotton	11	7
Rubber	7	7

Source: World Bank

AFRICAN COMMODITIES

A crop of failures triggers fears of deepening crisis

*Natural and man-made disasters, weak management, and wrong policies have taken a heavy toll of the heart of Africa's economy, says **Michael Holman***

THE TARGET has never been reached before in sub-Saharan Africa, yet the region's hopes for economic recovery depend on achieving it.

If the agricultural sector does not sustain annual growth averaging at least 4 per cent a year, needed to outpace population increase and to make up lost ground, the region's crisis will deepen. Failure would mean stagnating export earnings, a widening food deficit, and further inroads by Asian countries into Africa's falling share of world commodity markets.

Given the right policies, properly implemented, it can be done, say planners, who take encouragement from China's achievement of 6 per cent agricultural expansion in the 1980s.

Given the record of the past 25 years, and the obstacles ahead, a target of 4 per cent annual growth a year will be hard to meet

But they acknowledge that given the record of the past 25 years, and the obstacles ahead, it will be a target hard to meet.

Natural and man-made disasters, weak management, and wrong policies have taken a heavy toll of what is the heart of Africa's economy, accounting as it does for about a third of the region's GDP and around 80 per cent of export earnings.

The average rate of agricultural growth has stayed between 1.7 and 1.9 per cent since 1965, well behind population expanding at about 2.7 per cent between 1965 and 1980, rising since then to just over 3 per cent.

Per capita food output has declined, food imports have increased at nearly 4 per cent a year since 1974, and food aid has risen 7 per cent annually. Meanwhile, Africa's share in developing country exports of food and agricultural products has halved between 1970 and 1990 – from 17 per cent to 8 per cent.

Nor has the region's export base diversified. Most African economies still rely on one or two primary commodities, which altogether account for about 80 per cent of Africa's export revenues – roughly the same as 20 years ago.

The fall in the share of the world market has cost Africa dear. Earlier Bank analysis has shown that if Sub-Saharan countries had maintained their 1970 market share of non-oil primary exports from developing countries and prices had remained the same, their export earnings would have been $9bn-$10bn a year higher in 1986-87, equal to the region's total debt service payments in this period.

Africa's leaders place at least part of the blame for their countries' poor performance on external factors, but as the 1990 UN report, *Africa's Commodity Problems*, commented, "other developing countries in other regions have had to face similar market problems and they have progressed while Africa has fallen behind".

Recovering the market share will be difficult. Africa's competitors have invested export proceeds more productively, and now maintain economic reforms and hone their competitive edge more effectively than Africa.

Two startling examples can be found in south-east Asia, as World Bank researchers point out. In 1965 Indonesia's GDP per capita was lower than Nigeria's.

In both countries oil has been the dominant export. "Who could have predicted then that Indonesia's GDP in 1990 would be three times that of Nigeria. Or that Thailand (an agriculture-based economy whose GDP per capita in 1965 was lower than Ghana's) would be one of the best-performing countries in the world, while Ghana struggles to regain its position as a middle income developing country?" comments the Bank in a draft report.

Nevertheless, reforms ranging from realistic exchange rates to improved producer prices are bringing results in Africa, says Mr Kevin Cleaver*. Ten countries "already have met the (4 per cent) target or have come close to it in the late 1980s and early 1990s, although with considerable annual fluctuations" citing Nigeria, Uganda and Kenya. Given that the list also includes Botswana, Comoros and Chad, it may be too soon to draw profound conclusions.

The most striking success story cited is also a salutary tale. Nairobi's city market is an African cornucopia, stalls piled high with mangoes and passion fruit, avocados and french beans, carnations, roses, chrysanthemums and orchids, bound for the tables of Europe and elsewhere. From modest beginnings in the 1970s, Kenya's horticultural business boomed in the 1980s, and now brings in more than $100m a year in much needed foreign exchange.

Most African economies still rely on one or two primary commodities, which altogether account for about 80 per cent of Africa's export revenues

But only about 7 per cent of this trade is accounted for by Kenya's African companies: "Kenya's Africans have had difficulty maintaining viable enterprises due to low capitalisation, management weaknesses, and lack of links to foreign investors... Where African companies have worked, family members living in Europe have been important in managing imports," continues the study.

"Long-term trading relationships between exporters and importers are therefore critical", it concludes, in the provision of foreign know-how, market knowledge and investment.

As Mr Cleaver points out, private sector investment in African agriculture and agro-industry is essential, but this in turn depends on successful implementation of macro-economic reforms.

* *A Strategy to Develop Agriculture in Sub-Saharan Africa*, Kevin Cleaver, World Bank technical paper No 203

AFRICA

Enfeebled giant burdened by debt

*Only the return of foreign investment, in partnership with a thriving private sector, will give the economy the boost it needs, argues **Michael Holman***

AFRICA AND its allies are in danger of losing the battle for the recovery of a continent, now so weakened by years of adversity and mismanagement that it cannot take full advantage of a stronger world economy.

More than a decade after the World Bank first sounded the alarm about Sub-Saharan Africa's crisis, and despite some $170bn in net development assistance that has followed, the region's problems remain acute.

Economic reforms that got under way in the 1980s are not measuring up to expectations, whether due to weak implementation by African governments, inadequate incentives from western governments and agencies, or flaws in the structural adjustment policy itself. And on the political front, the democratisation process that raised hopes in the 1990s is proving divisive rather than constructive, as ethnicity, rather than policies, determine voters' allegiances.

Today, Africa is an enfeebled giant, poorer in per capita terms than it was in 1960, and burdened by an external debt that has soared from $3bn to more than $145bn, and which costs a quarter of export earnings to service.

Wars in Angola, Sudan, Somalia and elsewhere continue to scar the continent, foreign investment (outside the oil sector) is negligible, management is weak, corruption widespread, and Aids is on the increase. "It is the only region in the world likely to experience an increase in absolute poverty over the next decade," Kim Jaycox, the World Bank's vice-president for Africa, told his executive board last February.

Admittedly, Africa will do better in the 1990s than in the 1980s, if the forecasters are correct. In its World Economic Outlook, published last May, the International Monetary Fund (IMF) predicted real GDP growth at 3.3 per cent in 1993-94, rising to 4.4 per cent a year between 1995 and 1998.

But the Fund was quick to hedge its bets: "These projections are subject to a wider margin of uncertainty than for other regions," it warned, noting that "despite considerable progress in some countries, many obstacles to stronger growth remain to be tackled, including inadequate infrastructure, weak administrative capacity ... and social and political instability."

Given that Sub-Saharan Africa's four leading economies are all in difficulties, the caveat is understandable.

More than a decade after the World Bank first sounded the alarm about Sub-Saharan Africa's crisis, the region's problems remain acute

Nigeria is in the grips of a political crisis, and its economic reform programme has effectively lapsed; Kenya is faltering in its promise to root out corruption; the Ivory Coast cannot implement an effective reform programme as long as the CFA franc remains overvalued by as much as 30 per cent; and South Africa remains plagued by political violence, likely to get worse not better as party rivalries intensify in the run up to next April's general election.

Nevertheless, the IMF forecast may seem encouraging, compared with the 1980s, when growth over the decade averaged less than 2 per cent and per capita income fell by more than 1 per cent.

The reality, however, is that this rate of growth will only stem, possibly halt, the rate of Africa's overall decline, for it must be set against a current population increase of 3.1 per cent annually – which, if sustained, will double the region's population every 22 years.

Even the most successful example of reform provides a salutary warning of the long battle ahead if Africa is to make up ground lost during the disastrous post-independence era. Structural adjustment in Ghana has worked - but only up to a modest point. Real incomes per head have grown by an average 2 per cent a year since 1983; they fell by 0.4 per cent a year in the decade before the structural adjustment programme began. But at current growth rates (5 per cent for GDP, 3 per cent for population), it would take 20 years for Ghana to join the ranks of lower middle-income countries.

One important lesson from Ghana is that aid is not enough. Only the return – on a substantial scale – of foreign investment, in partnership with a thriving private sector, will give Africa's economy the boost it needs. As Kim Jaycox points out: "Even if aid succeeded in generating annual growth rates of 6 per cent on average, most African countries would still require 25 years to reach acceptable unemployment levels and $1,000 GDP per capita. Only the private sector has any chance of achieving higher rates of growth with greater speed."

There is little evidence that foreign investors, who saw their rate of return drop from some 30 per cent in the 1960s to just 2.5 per cent in the 1980s, are about to come back. Net foreign direct investment in Africa has averaged around $500m a year over the past few years (mostly into the oil and mining sectors), less than 1 per cent of the global total according to the UN's World Investment Report.

The question remains whether governments have the will to adopt painful economic reforms, or the capacity to implement them

Obstacles range from the poor state of the infrastructure in most countries to the tough competition from other countries in the developing world, such as Thailand, Indonesia or Vietnam. Above all, Africa has yet to convince the outside world that it means business.

"Too many African countries have embraced economic reform too hesitantly," Sir William Ryrie, outgoing head of the International Finance Corporation (IFC), the private sector arm of the World Bank, told a conference in Nairobi in March this year.

Whether Africa and its allies are prepared to admit that defeat looms in the battle for recovery remains to be seen. Since the Bank first sounded the alarm, in its 1981 report, further warnings have come at regular intervals. Africa "faces acute economic difficulties", said the Bank's next appraisal, published in 1984. Five years later the picture remained bleak. The Bank looked back on "a decade of falling per capita income" and concluded: "Overall, Africans are almost as poor today [1989] as they were 30 years ago."

The Bank has been taking stock once again and, in a report due to be published shortly, is expected to conclude that economic reforms have stemmed the pace of decline. But at current rates of per capita GDP growth it will be 40 years before the region returns to its per capita income of the mid 1970s.

Given better implementation of reforms and an improved international economic environment, and a renewed effort by the international community to tackle Africa's crisis, prospects could change. But the critical question remains whether African governments have the political will to adopt painful economic reforms, or the managerial capacity with which to implement them.

But Africa's allies will also have to take fresh stock of their performance. No development agency likes to admit failure, for it fears losing its *raison d'etre*. No non-government organisation likes to acknowledge defeat, for fear of funds drying up. No western government wants to add to its problems by acknowledging that its aid policy is ineffectual. But only a frank appraisal of the crisis can provide the basis of the fresh initiative the continent desperately needs.

Sub-Saharan Africa: external debt ($bn)

	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994
Total debt	63.5	75.1	89.8	95.6	99.1	112.3	120.6	124.8	132.4	140.5
By maturity										
Short-term	6.5	7.5	10.0	10.8	11.7	13.7	14.7	16.7	15.8	17.2
Long-term	57.0	67.6	79.7	84.8	87.4	98.6	105.8	108.0	116.6	123.3
By type of creditor										
Official	44.4	58.1	68.6	73.9	74.7	86.6	94.1	96.8	104.0	110.4
Commercial banks	13.2	13.0	14.7	14.1	14.4	16.0	16.5	16.3	16.7	17.5
Other private	5.9	6.0	6.5	7.6	10.0	9.6	9.9	11.6	11.7	12.6
Debt-service payments (% of exports of goods and services)										
Africa*	27.5	28.0	23.7	24.7	24.1	23.3	25.2	26.6	33.4	25.3
Real GDP (annual percentage change)										
Sub-Saharan Africa	3.4	2.9	2.2	3.0	2.9	1.3	1.1	0.4	4.5	4.3
Real per capita GDP (annual percentage change)										
Africa*	0.3	−0.9	−1.6	1.1	0.8	−1.0	−1.1	−1.7	0.0	1.1

* Figures are for all of Africa

Source: World Economic Outlook (May 1993), IMF

PROFILE: BABACAR N'DIAYE

A tireless campaigner

The ADB chief has also used his position to act as diplomat and spokesman for the world's poorest continent, whose future, he believes, lies with investment rather than charity

Babacar N'Diaye: 28 years at the bank

Picture: Tony [illegible]

FEW EXPERTS can claim to understand Africa's debt problems as well as Babacar N'Diaye, the Senegalese banker who has headed the African Development Bank since 1985.

Mr N'Diaye, who joined the ADB as a young graduate straight out of accountancy school in France, has devoted 28 years to making it one of the continent's biggest sources of development finance. With a disbursed loan portfolio of more than $7bn, the ADB is as important to Africa as the World Bank or any large Western donor nation.

Under his stewardship, the multilateral bank has acquired a political cohesion that is sadly absent in other pan-African organisations. This has given him the confidence to tackle sensitive political issues, such as South Africa's admission to the ADB. South Africa is expected to become the ADB's 52nd member next year, after holding its first multi-racial elections.

Mr N'Diaye has also used his position to act as diplomat and spokesman for the poorest continent. He has campaigned tirelessly to find new formulas to reduce Africa's $300bn foreign debt. Some admirers even favoured Mr N'Diaye to succeed Mr Javier Perez de Cuellar as UN secretary-general. In the event, the job went to a fellow African, Boutros Boutros Ghali.

Mr N'Diaye is one of a new generation of Africans who believe that the way forward for Africa is not to beg, but to persuade investors that the continent has long-term growth potential. He does not run the bank like a charity. His main success to date has been to strengthen its lending base by increasing its borrowing power in the international markets. When he took over the presidency in 1985, the bank's capital was $6.3bn; it is now $23bn.

But a bank is ultimately only as strong as its customers, and Africa's worsening economic environment has also created problems for the ADB. At the last annual meeting in May, Mr N'Diaye devoted a large part of his address to the issue of arrears, which now total more than $425m – about 6 per cent of outstanding loans. Zaire is the worst offender, with unpaid debts of $140m. Even borrowers with a good track record, such as Kenya, are now $15m in arrears. In spite of a doubling of loan-loss provisions to $50m, N'Diaye has begun to turn the screws on delinquent borrowers.

African states are already finding it difficult to meet the ADB's long list of loan conditions: only 17 countries borrowed from the ADB in 1992

"The insidious accumulation of arrears is disastrous for the institution in the long run," he told the annual meeting in Abidjan. He said the bank would begin to apply tighter lending controls. However, African states are already finding it difficult to meet the ADB's long list of loan conditions. Only 17 countries borrowed from the ADB in 1992, and Tunisia, Morocco and Algeria accounted for half of the total loan approvals of $1.75bn.

There is a growing demand for concessionary grants from the ADB's African Development Fund, but a concomitant reluctance by western countries to increase subscriptions to the ADF. Mr N'Diaye, therefore, favours altering the balance between the ADB's non-concessionary and concessionary financing. Under his plan, ADF lending would double to $3bn a year, while the ADB's operations contracted to $1bn.

Cost-cutting western governments, however, have dismissed as unrealistic his call for a 62 per cent increase in the replenishment of ADF funds, which is due early next year. Mr N'Diaye remains undaunted. He has embarked on yet another of his international lobbying marathons for the needed funds.

Leslie Crawford

■ THE INDUSTRIAL BACKGROUND

INDUSTRY OVERVIEW

A productivity paradox

The gap between accelerating technical change and weak economic performance is perplexing economists, writes ***Peter Norman***

THE PARADOX could not be greater. The industrialised world is experiencing a rapid and far-reaching technological revolution. Information and communications technologies, advanced automation and robotics, and new engineering materials, such as polymers, composites and ceramics are revolutionising production processes and products.

Yet the big industrial countries are either struggling to get out of recession, or still facing declining production and rising unemployment. With few exceptions (one may be Britain), productivity has shown few signs of regaining the strong growth demonstrated in the main industrialised countries in the two decades following the second world war.

This so-called productivity paradox has become a question of growing concern to governments and economists. Some have suggested that the problem may be partly statistical: that the contributions to growth and prosperity created by the new technologies are not properly captured by the data that governments gather.

The slow emergence of harmonised industrial standards may also be delaying the application of technology. But many economists believe the reason for the perceived gap between accelerating technical change and weak economic performance is social conditions and the organisation of companies.

The diffusion of innovations can be a hit and miss affair

Such ideas have emerged in research encouraged by the Paris-based Organisation for Economic Co-operation and Development (OECD) and carried out at centres such as the Science Policy Research Unit (SPRU) at the University of Sussex in Britain.

This research highlights the distinction between technical innovation and its diffusion. New technologies are coming on stream and becoming ever more sophisticated but they may also be proving difficult to introduce in what economists call the existing techno-economic system.

The industrialised world is undergoing a difficult transition. At one extreme, the development of compact personal computers, low-cost modems and falling telecommunications costs have enabled some workers in knowledge-based industries to work from home. But much of the productive apparatus of the big industrial countries would look familiar to anyone who had seen a factory shortly after the first world war.

Continual rationalisation and innovation mean the car industry, for example, now produces many varieties of a car model on a single production line: a huge difference to Henry Ford's day when people could buy the Model T in any colour "provided it was black". But the rigidly organised factory system, based on the mass consumption of standard products and with a high energy and raw material requirement, still has not been replaced by any clearly identifiable new technological style.

The coexistence of old and new is a sign that the industrialised world can only slowly apply new technologies to its industrial base and that it will be some time before today's technological revolution becomes a true industrial revolution. Nor should this be a surprise. The diffusion of innovations can be a hit and miss affair and history offers many lessons of slow take-up.

Markets may not be ready to accept inventions. The McCormick reaper, which later become one of the 19th century's most successful inventions, was invented in the 1830s but not bought in large numbers until 20 years later, when the grain farms of the US grew in size and labour became more expensive.

Bottlenecks can arise because it is difficult for users of a new technology to see its full potential. The introduction of the electric motor at the end of the 19th century yielded no rapid rise in productivity. Factory owners often attached the motors to existing group drive systems of belts, shafts and pulleys that had earlier been driven by steam or water rather than use the motors in the most productive way to power individual machines in a unit drive system.

Such lags in the application of technology can have a positive side. Companies, which are not in the vanguard of achievement, can still adopt recent developments to compete effectively. In its recent report Manufacturing into the late 1990s, Britain's Department of Trade and Industry observed that: "While important and fundamental developments in technology will be seen, no doubt, over the next 10 years, the vast majority of UK manufacturing companies will be concerned with applying and using incremental developments of technologies that are already established."

However, the DTI does expect that the rate of uptake of technology will increase. This already seems to be happening in the US, according to Mr Albert Edwards, an economist and global equity strategist at Kleinwort Benson, the UK investment bank.

US investment in computers surged by 38 per cent last year as the country pulled out of recession. Spending on computers had also risen in the 1991 recession year. According to Mr Edwards, such a jump in investment at that phase of the economic cycle is unusual, and could be a sign that the technological revolution is sweeping smokestack America.

If so, the late 20th century productivity paradox may soon be overcome. But in so far as it represents the replacement of middle management by machines, it will open up new social and political problems of which the biggest will be the redeployment of redundant middle class labour.

The development of compact personal computers enables more people to work away from the office

CHEMICALS

Market unlikely to recover until 1996

The recession has caused turmoil in the industry. Overcapacity and poor demand has led to a collapse in prices. ***Paul Abrahams*** *reports*

THE world's chemical industry is in turmoil. The sector, accustomed to wickedly cyclical swings in profitability, is at the bottom of a long and painful recession.

Prices, margins and profits have fallen. So, too, have sales. Worldwide sales of chemicals fell from Ecu970bn ($1,144bn) in 1991 to Ecu941bn last year, according to Cefic, the European chemical industry's trade association. The decline is in spite of continuing rapid growth in the Asia-Pacific region.

The fall is a result of the recession in the western economies. The chemicals sector, representing 2.5 per cent of the European economy, is highly dependent upon the construction and automotive industry, both badly affected by the downturn.

The decline in value of chemical sales is not due to a downturn in production. Rather a combination of overcapacity and poor demand has led to a collapse in prices. Take PVC, for example: prices of the product, widely used in vehicles and buildings, have fallen in Europe from a peak of DM1.85 in 1989 to DM1 during the second quarter of this year.

Meanwhile, in the US, the slow, hesitant recovery is also being undermined by overcapacity. Analysts believe there is not a single manufacturer of high density polyethylene in the US making money. From a peak of about 45 cents a pound in 1990, prices have plummeted to 28 cents. Recent attempts to raise them have been unsuccessful. The market is unlikely to recover until 1996 at the earliest.

The need for restructuring in Europe has been apparent for at least two years. But in spite of well-publicised negotiations, progress so far has been limited.

Mr Bryan Sanderson, chief executive of BP Chemicals, the UK group, has said German manufacturers should cut production. Mr Jürgen Strube, chairman of BASF, the German company, confidently predicts British and Italian producers will cut capacity.

However, Mr Cees van Lede, chairman-designate of Akzo, the Dutch group, says every cloud has a silver lining. "The recession has allowed us to restructure and cut costs in a way that was just not possible during the late 1980s," he explains.

Bryan Sanderson: Germans should cut production

Jürgen Strube: predicts UK and Italy will cut capacity

Whether the end of recession in the western economies will bring an end to the chemical sector's pain is far from certain.

A significant and fundamental structural shift in the geographical location of production appears to be occurring. Just as the manufacture of fibre has for the most part followed the textiles industry to the Far East, so petrochemicals and plastics production looks to be shifting to low-cost sites in Asia and eastern Europe.

"A substantial relocation of industry is occurring," says Mr van Lede. "A skilled industrial worker in Germany takes home about DM600 a week. Just across the border in the Czech Republic he gets DM60, and in Russia it is DM6. This is going to lead to a fundamental rethinking of the industry and how this should be managed. We have a choice. We can either import cheap labour – which is politically impossible – or we can employ them in their local economies."

The advantages of manufacturing in eastern Europe is already apparent. Cheap eastern European imports are flooding into western Europe. The loudest complaints have come from western European companies manufacturing fertilisers, soda ash, polyvinyl chloride (PVC), caprolactam (a precursor of nylon), and melamine (a plastic).

With low inflation, slow growth and improving productivity in western companies, the outlook for employment in western Europe looks grim unless they can change to higher growth products such as pharmaceuticals, says Mr Lede.

Mr Donald Anderson, chief economist of Courtaulds, the UK group, says: "The difference in cost levels between Europe, the Far East and eastern Europe, have really not been addressed by the sector. The adjustment problems will be very severe and western European companies will be severely tested to match those elsewhere."

"The chemical industry is at a critical stage of its development," agrees Mr Ronnie Hampel, chief executive of ICI, the UK's largest chemical group. "The market has changed forever, and we must learn to cope with a low inflation environment and globalisation."

Nearly all European and many US groups plan to respond to the present crisis in the west by expanding their operations in the fast-growing Asian economies over the next few years.

Courtaulds, the UK group, still views the UK as an important manufacturing base, but it sees itself as under-represented in the Asia-Pacific region, according to Mr Anderson.

"The statistics are unreliable in the Far East, but the growth is more than 10 per cent. Some of the investment substitutes exports, but we are optimistic. The potential of China is frightening," he says.

Local production in Asia is growing rapidly but is not without problems. The pain of growth can be as difficult as the pain caused by recession.

The extraordinary growth of petrochemicals production in South Korea has upset Japanese and Middle East manufacturers. Ethylene capacity has tripled in the past three years to 3.25m tonnes a year, 2m tonnes more than domestic demand.

Korean companies had hoped to sell surplus requirements in China. However, the Korean Petrochemical Co has recently been granted protection from creditors and all its liabilities have been frozen.

If even Asian manufacturers are suffering, the outlook for higher-cost western producers looks bleak.

STEEL

New strongholds in the east

Production and consumption as a proportion of the world total is falling in the mature markets. By 2000, China could be the biggest steel producer in the world, writes ***Andrew Baxter***

MORE THAN most industries, steel is shifting in its economic importance to the world economy, in line with the dramatic growth of the developing countries and the maturing of western economies.

This is a process which can often be overlooked in a recession, which inevitably focuses attention on issues such as overcapacity in traditional western producing countries – notably in Europe.

Similarly, developments such as the collapse of the communist regimes of eastern Europe, and the consequential question marks placed on its steel production, can obscure the broader global picture.

Mature economies have relatively less long-term need for steel than developing or industrialising ones. Steel is a basic, mother product used for automobiles, construction, white goods, factory equipment. These are all owned in abundance in the west yet – at least in the case of consumer goods – still aspired to by the majority of the population in countries such as India and China.

Technological change also tends to create product substitution, with plastics, aluminium, or newer composite materials making inroads into traditional steel markets. Again, this trend is more prevalent in developed economies.

Because of these factors, growth in steel consumption lags behind overall economic growth in developed countries. It has been estimated that gross domestic product in the European Community needs to rise by 1.5 per cent a year simply to keep steel consumption – about 105m tonnes last year – static.

Figures from the International Iron and Steel Institute bear out the changing patterns of steel production, which match the surging economic growth rates achieved recently by developing countries.

In 1950, the western world accounted for 153m tonnes of total world production of 190m tons. In 1992, the west accounted for 488m tonnes out of the 721m tonnes total.

Among main steel producing nations, China is already in third place at 80m tonnes of crude steel last year, and in 1993 is likely to overtake the US, which produced 84.3m tonnes last year. By the end of the century, China could be the biggest steel producer in the world, eclipsing Japan which had output of 98.1m tonnes last year.

As for consumption of steel, developing countries accounted for 15.1 per cent of the world total in 1982, and 20.4 per cent last year. The share of China and North Korea, which are treated by the IISI as centrally-planned economies rather than developing countries, rose from 6.9 per cent to 11.7 per cent over the same period.

The rise in consumption in developing countries has led to big increases in employment in the steel industry, partly because productivity has failed to keep pace with demand and old-fashioned production methods are still used.

In India, for example, the two dominant companies, state-owned Steel Authority of India (Sail) and Tata Iron and Steel (Tisco) increased total employment from 197,000 in 1974 to 294,000 last year, according to IISI statistics.

In western Europe and the US, by contrast, the need for capacity cuts to reflect steel's relatively declining importance has been accompanied by heavy investment in modern production techniques and the complete disappearance of inefficient open-hearth production.

As a consequence, employment in the ten biggest steel producers in the European Community has fallen from 887,000 in 1974 to 352,000 last year. Over the same period, employment in the US has fallen from 521,000 to 190,000, and in Japan from 459,000 to 304,000.

Forecasts by US-based WEFA Group for world steel production over the five years from 1992 bear out all these trends. It predicts that total world steel production will rise from 714.2m tonnes last year to 763.9m in 1997.

Among steel producing nations, China is in third place at 80m tonnes of crude steel last year

EC production is seen hovering between 126m and 135m tonnes a year, and North American production is predicted to range between 101m and 105m tonnes annually.

But production in Latin America is predicted to grow from 43m tonnes this year to 54m by 1997, while output in developing Asia (mainly South Korea and India) is forecast to rise from 70m tons to 81m tons over the same period.

Chinese production, WEFA predicts, will rise from 85m tons of crude steel this year to 95m tons in 1997. This seems a reasonable target even with the attempts by the Chinese government to cool down the country's sharply rising economic growth.

The growth in the Chinese market has had a ripple effect in Europe. In the first half of this year, as European producers and the European Commission grappled with planned capacity cuts and the thorny issue of state subsidies, output reductions followed by buoyant demand from China for long products helping to keep prices firm.

Apart from China, one of the most interesting steel markets over the next decade could be India. A recent report by Lehman Brothers noted that Indian GDP could grow by an average 5 per cent a year over the next 10 years, which could double steel consumption from its current level of 16m tonnes a year.

India is currently the world's 10th largest steel producer – or ninth if Russian and Ukrainian output is combined. But the report says India could easily be higher up the list by the early years of the next century as rapidly growing production overtakes static or declining output in industrialised countries.

TELECOMMUNICATIONS

Stuff of dreams a decade ago

In developed countries, the emphasis is on competition, efficiency and new networks, says ***Andrew Adonis***

OF THE WORLD'S larger industries, telecommunications is the fastest growing. Over the past decade its expansion has far outstripped GNP growth, and it is set to continue on the upward track for the foreseeable future.

"We are not sure whether improved telecommunications drives economic growth or vice versa", says Mr Mike Minges, a leading analyst at the International Telecommunication Union in Geneva. "But one thing is certain: no country can sustain growth without a modern telecommunications infrastructure."

The graph makes the point at a glance. No country with annual GDP of more than $7,000 per head has a "teledensity" of less than 20 – that is, fewer than 20 exchange lines per 100 people. Virtually all the plus-$7,000 countries have a teledensity of more than 30.

However, they remain exceptional. The dense grouping of countries in the bottom left corner highlights the reality that most of the world is poor, and most of the poor have no telecommunications. Most of the world has a GDP a head of less than $2,000 and fewer than five exchange lines per 100 people.

Of the 133 countries covered by the ITU survey, 70 have a teledensity of less than 5. That means virtually the whole of Africa north of South Africa, most of Asia and much of central and Latin America. The contrast within some regions is striking.

Hong Kong has a teledensity of 49 and Singapore 40; whereas the Philippines languishes at 1.5, Thailand at 2.7, Malaysia at 11. Even within the Europe Community, Portugal (at 32) and France (at 53) are poles apart.

In terms of policies to enhance telecommunications, the world can be broadly divided into three camps: developed countries (with teledensities of 30-plus); emerging market countries (with teledensities of between about 10 and 30); and developing countries, with fewer than 10 lines per 100.

In the developed countries, most people who want a phone can secure one at an affordable price. The emphasis is on competition, commercial efficiency, new networks (particularly for cellular mobile services) and the introduction of value-added products and services. For established users in these countries, the cost of "fixed line" telephony is reducing sharply as infrastructure and operating costs tumble and competition forces prices down.

For the developed world's business sector, advanced telecommunications offer options which were the stuff of dreams only a decade ago. In Scandinavia and the US, cellular mobile teledensity is already approaching 10. "One-stop" telecoms packages are coming to the market for transnational customers, with AT&T and BT leading the battle among the main operators to become truly global companies. Multimedia - the buzz-word for products spanning the telecoms/audio/computing/entertainment divides - is widening horizons further still.

In the emerging market countries, the emphasis is on line growth and the provision of advanced services in main cities so as to keep and attract inward investors.

Privatisation is coming to be seen as a key tool for both attracting cash and overseas expertise to carry out these tasks.

Greece, for instance, last year auctioned two licences to build the country's first cellular mobile networks – granting them to consortia led by Stet of Italy and Vodafone of the UK for more than $150m apiece. It is currently looking for an overseas strategic partner to take a minority stake in the state telecommunications operator.

Hungary is in a similar position and could become a pacesetter for eastern Europe. Of countries in the former eastern bloc, only Bulgaria and the Baltic states have teledensities of more than 20, with most of the region down at between 10 and 15.

The World Bank, the European Investment Bank and the European Bank for Reconstruction and Development have investment programmes for the region, but a main priority is to foster a legal and financial environment conducive to greater investment by overseas operators.

In developing countries, fixed-line growth is the overriding concern. Again, however, western investment will play an increasingly important role through franchise contracts to build, operate and transfer (BOT) new networks.

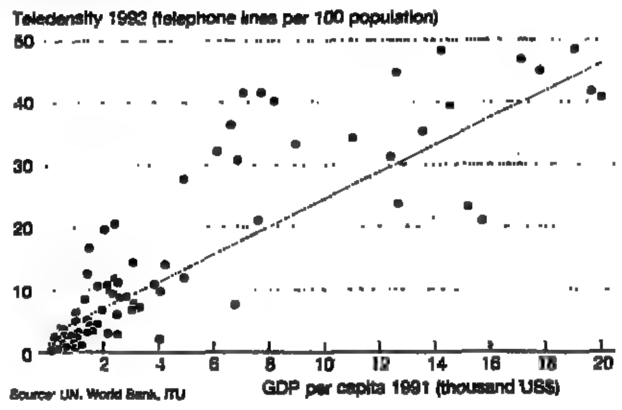
In Thailand, for instance, Japan's NTT has a stake in a private Thai telecoms company with a contract to build 1m lines in the provinces; while TelecomAsia, a consortium in which Nynex, the US regional operator, holds a 15 per cent stake, has a BOT contract to build 2m lines in Bangkok.

"The BOT model will be the modernisation path for developing countries across the region," says Mr Andrew Harrington, Asia-Pacific telecoms analyst with Salomon Brothers in Hong Kong.

China, with a teledensity of precisely 1, is the world's biggest boom market in prospect. China's Minister of Posts has proclaimed a target of 75m new exchange lines by the year 2000, equivalent to three times the BT network and more than a quadrupling of existing capacity.

Western operators and equipment suppliers are wide-eyed at the prospect.

Teledensity and GDP



MOTORS

Asia the main driving force

Kevin Done looks at the reasons for the downturn in demand in the leading industrial countries

THE long upward trend in worldwide new car sales has been halted first by the fall of demand in the North American market in the late 1980s and then by declining sales in Japan and now in western Europe in the early 1990s.

Growth in newly developing markets has been unable to compensate for the downturn in demand in the main industrial countries.

For the rest of the decade, however, the strongest expansion worldwide both in sales and production is expected to come from outside the leading traditional car-consuming regions of western Europe, North America and Japan.

According to a recent study by DRI Europe, the UK-based automotive analysts, "the 1990s are expected to be a decade of structural changes in the pattern of global car sales towards newly developing markets".

The US is already a mature market where new car sales are increasingly a function of replacement demand, and the same will be true of western Europe by the end of the decade.

While the DRI report forecasts a 21 per cent increase in global car demand from 1992 to 1998, the main impulses for this growth are expected to come from South Korea, China, Thailand, Latin America and eastern Europe.

The Asia/Pacific region (excluding Japan) is also expected to be the main focus for growth in car production for the rest of the 1990s with output set to jump from 2.25m last year to 4.81m in 1998.

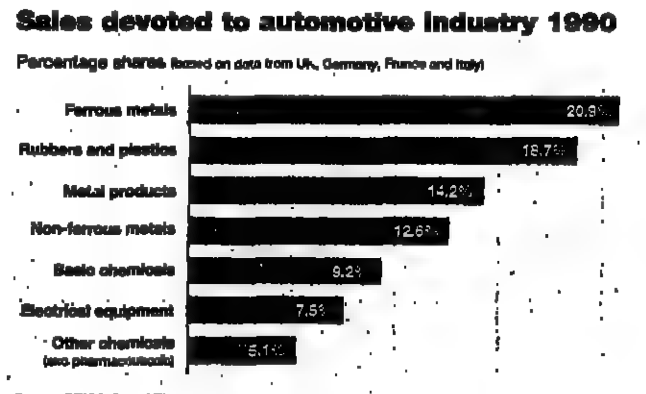
In western Europe new car sales are forecast to fall by 16 per cent this year to 11.3m from 13.5m in 1992.

The outlook for next year is also gloomy with the prospect of only a minimal recovery.

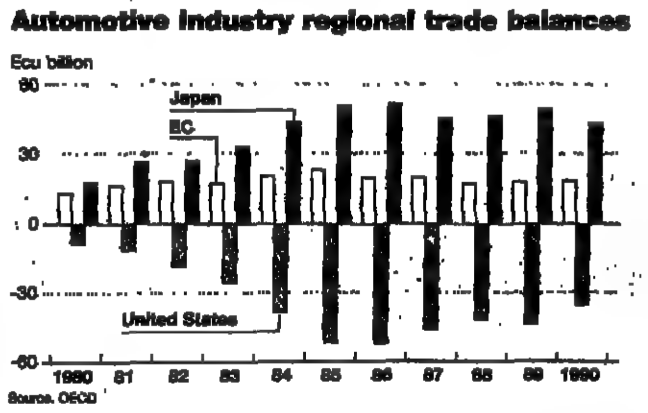
The decline in western Europe in 1993 will be steeper than during the recession following the first oil crisis in the early 1970s.

Japanese carmakers have fallen under unaccustomed pressure in their domestic market, where sales this year are suffering an unprecedented third successive annual decline.

Sales devoted to automotive industry 1990



Automotive industry regional trade balances



In the US fragile consumer confidence continues to threaten the pace of recovery from recession, but car sales are rising again in 1993 after four years of decline. Car sales (excluding light trucks) are forecast to rise by around five per cent to 8.79m in 1993 but will still be nearly 3m units below the 1986 peak.

New car sales worldwide are expected to contract by 3 per cent to 33.02m this year, the second significant decline in the last three years. Global sales are forecast by DRI to recover next year, however, with a rise of around 5 per cent.

The auto industry plays a crucial role in the world economy in terms of shaping trade flows, creating employment, contributing to research and development, and in acting as a customer for other industries.

According to a study prepared for Acea, the European Automobile Makers Association, the auto industry accounts for around 21 per cent of sales of ferrous metals, 19 per cent of rubbers and plastics sales, 14 per cent of metal products and 9 per cent of basic chemicals.

With the enormous growth in importance of the Japanese auto industry in recent decades, the trade balances of the three main industrial regions of the world, have been shifted fundamentally.

As the Japanese automotive trade surplus more than tripled during the 1980s from Ecu13bn in 1979 to Ecu43bn in 1990, the US automotive trade deficit ballooned from Ecu7bn to Ecu36bn in the same period. The European Community's automotive trade surplus remained fairly constant at around Ecu18bn through most of this period, but the EC has a substantial automotive trade deficit with Japan, and the imbalance has been worsening significantly.

According to Acea the EC automobile trade deficit with Japan was $6bn in 1991, representing some 21 per cent of the total EC deficit with Japan. The automobile deficit increased by 25 per cent last year and rose to 24 per cent of the total deficit.

These large and persistent automotive trade imbalances continue to put heavy pressures on trade relations between Japan and the EC and the US.

The tensions are being intensified by recession in the three regions and by the growing burden of overcapacity.

Carmakers are being forced to close plants in North America, Europe and Japan, but the industry has also invested heavily in new capacity with Japanese carmakers in particular adding new production plants in Japan and in North America and western Europe.

Mr Jacques Nasser, chairman of Ford of Europe, warned recently that the problem of overcapacity was "a major strategic concern" for all carmakers in Europe. Ford did not expect new car sales in western Europe to return to the trend level of 1990/91 until the late 1990s.

"The potential for excess capacity in the mid to late 1990s will be around 7m units." This amount of overcapacity would pose "severe structural problems" for the European auto industry.

The wave of restructuring in recent years in the world auto industry is forcing vehicle makers and automotive components suppliers to eliminate hundreds of thousands of jobs. The German automotive industry alone must shed a further 100,000 jobs in the next two years according to Mr Achim Diekmann, chief executive of the German Automobile Federation.

Health dilemma

THE developed world, the conventional wisdom runs, faces a growing health-care crisis. Most countries have not managed to halt the growth in the share of national income consumed by health.

Most face a sizeable gap between demand for healthcare and the funding available.

But before policy analysts throw up their hands in despair, they should read the World Bank's recent World Development Report.

The bank's analysis points out that at the root of this healthcare dilemma lies an important success: the increase in the life expectancy of all of the world's citizens.

In 1950, a child born in the developing world had a life expectancy of 40 years. Today it is 63 years. The chance of that child dying before the age of five is now three times lower than in 1950.

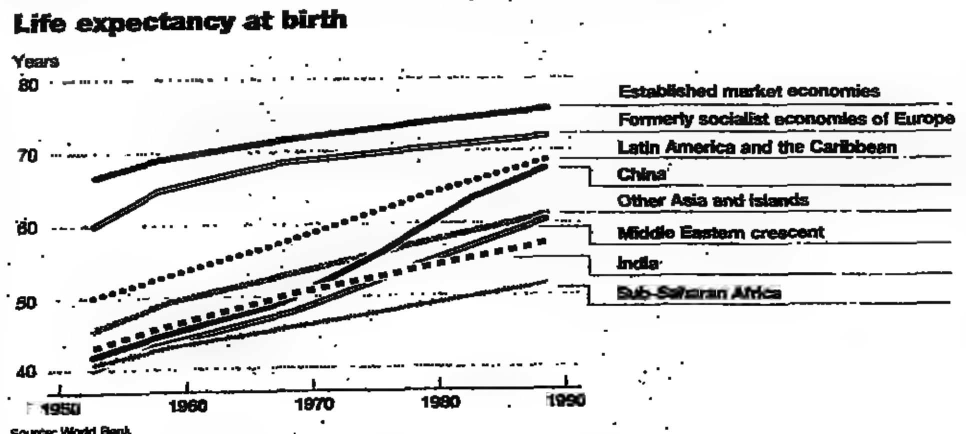
The battle to improve health standards is not over. All regions of the world have seen a rise in life expectancy at birth over the past 40 years. But infant mortality is still 10 times higher in the developing world than in the established market economies.

But economic development is the route to closing this gap: the message of the World Bank's report is that there is a "mutually reinforcing cycle" from improved health standards to higher productivity and stronger economic growth and higher spending on health.

Among developed countries, higher spending does not necessarily mean better care. The US spends more than twice as much as the UK as a percentage of GDP but more than 10 per cent of the US population has no assured access to health care. But higher spending certainly helps.

Edward Balls

Life expectancy at birth



EMPLOYMENT

Europe's lost jobs puzzle

Governments have begun to recognise the economic waste and threat to social stability posed by persistently high levels of unemployment, says ***Edward Balls***

THIS WILL be remembered as the year in which mass unemployment finally rose to the top of the policy agenda in most developed countries.

Over the past two decades the underlying jobless total has been rising regardless of the ups and downs of the economic cycle. Every OECD region has seen a trend rise in unemployment rates since 1960. The OECD's latest economic forecast says that, by the end of 1994, the jobless total will have risen to 8.25m in the US and 1.7m in Japan – but 23m in Europe.

But only now are governments beginning to recognise the economic waste and threat to social stability that persisting unemployment at these levels implies. At its the June ministerial meeting, the Organisation for Economic Co-operation and Development published the interim findings of its investigation into the causes of persistent joblessness in its member countries.

The EC has also recognised the seriousness of Europe's unemployment problem, devoting much of the time at its June summit meeting to debating the twin challenges of reducing EC unemployment and reviving jobs growth. Not to be out done, the Clinton administration is organising a summit on world unemployment this autumn.

But it is in Europe that the debate appears to have caught the popular and political imagination, not surprisingly perhaps, given the deepening recession that Europe's monetary policy deadlock has bequeathed. The OECD's latest economic forecast says that, by 1994, unemployment rates will have risen to 6.4 per cent in the US, 2.6 per cent in Japan but 12.1 per cent in the EC.

Europe also appears to have a more serious medium-term unemployment problem. While the US unemployment rate did move upwards in the 1970s, it has remained throughout the 1980s at around two thirds of European levels. Only 6 per cent of North America's unemployed have been out of work for more than a year, compared with nearly 50 per cent of European job seekers.

But it is in the area of employment growth that Europe's record appears most dismal. Since 1970, the US has succeeded in increasing the numbers in employment by

Europe's record appears most dismal in the area of employment growth

30m – three times as many as the Community. Less than 60 per cent of the EC working age population is currently in employment, compared with around 70 per cent in the US and over 75 per cent in Japan.

This employment record touches a sore nerve for European governments. Euro-sclerosis – the belief, popular in the early 1980s, that excessive labour market regulation is undermining Europe's economic performance – is a live issue once more.

The OECD, the European Commission and national governments are all now asking whether the low levels of employment, as well as high unemployment, in the EC are the result of the more regulated nature of the European jobs market.

Perhaps there is truth in the argument that the combination of persistent unemployment and sluggish job creation in EC countries, relative to other developed countries, indicates a lack of flexibility and competitiveness. The US experience suggests that deregulation has unpleasant distributional side-effects, but the US economy has managed to create a large number of new jobs in the service sector over the past decade.

Member countries, a Commission paper suggests, need policies which deliver a more employment-intensive pattern of economic growth. The paper suggests high non-wage labour costs in some continental European countries, employment taxes, inadequate training and rigid working patterns might explain this poor record.

Yet, this analysis ignores an important fact: that employment growth in both the US and UK has co-existed with low and falling male employment in both Anglo-Saxon countries. On average over the period 1982-90, and thus excluding the effects of either British recession, 9.7 per cent of British workers were unemployed according to the OECD, higher than in both the US, France and Germany.

Rising unemployment is only part of the story. Male labour force participation in the US and UK has dropped sharply over the past two decades as many have shifted from being unemployed to economically inactive. The sum of these two groups is the non-employed. On average in the 1980s, 12 per cent of US males aged 25-54, and 14.9 per cent of UK males in the same age group were out of work compared to 9.1 per cent in France.

Neither the US nor UK have avoided the economic shift which has pushed many poorly educated men out of employment: the shift towards more sophisticated technology and the employment of fewer unskilled production workers. By the end of the 1980s, one in five workers in OECD countries was employed in manufacturing, compared with one

On average, 12 per cent of US men aged 25-54, were jobless in the 1980s

in four in 1960. Between 1970 and 1987 the share of industrial employment in total employment fell by 7.3 percentage points in the US, by 8.4 points in France and by 14.9 points in the UK.

The US and UK have been able substantially to increase total employment by encouraging the creation of relatively low-wage service sector jobs. But these jobs have been shunned by men and taken up mainly by female entrants to the market. The proportion of UK women of working age who have jobs rose by 6.7 percentage points across the 1980s, but male employment fell by 2.6 percentage points. The US and the UK have substantially more women of working age in employment than, for example, France and Germany – nearly 60 per cent on average in the 1980s, compared with less than 50 per cent.

But neither the US nor the UK experience suggests that a deregulated, more flexible, labour market is a solution to the puzzle which continues to dog almost all developed country governments: why do so men not work anymore? Labour market deregulation may be the fastest route to higher female employment, albeit at lower wages. But it is not a solution to the OECD's unemployment problem.

Worst may be over

Continued from page 1

mut Kohl, French President François Mitterrand and EC Commission President Jacques Delors pushed ahead with plans for European economic and monetary union appear long gone.

Slow growth – with the OECD forecasting growth of about 1 per cent for its 24 member countries this year after 1.5 per cent in 1992 – is no friend of grand designs.

And yet, if the equity and bond markets are to be believed, a global recovery is emerging.

The investment community is encouraged by the idea that the industrial world might have seen the back of the inflationary binges of the past 40 years and is returning to an era of price stability – such as existed in the 19th century.

At the same time, the spread of market economics in the developing world holds out the hope of continuing strong growth that will sustain global demand.

The emerging recovery in the industrial world is getting off to a good start. "Unlike the economic recoveries starting in 1976 and 1983, this one starts with low price-wage inflation to encourage long-term investment," says Mr Paul Horne, international economist of US brokerage house, Smith Barney Shearson, in Paris.

But the path ahead is strewn with uncertainty. The impasse over the global trade negotiations is an obvious risk.

The achievement of steady growth with stable prices also depends crucially on whether the inflation of expectations, which has also been such a feature of the post second world war period, can be scaled back in line with monetary inflation.

If so, the world may be able to look back at the 1990s as an important period of transition in which the difficult structural and employment effects of a technological revolution were gradually overcome in the industrial world, and rising productivity spread improved living standards to all mankind.

If, on the other hand, governments, employees and businesses scramble for ever bigger shares of a slow growing cake, what little growth there is will give way again to inflation, stagnation or worse.

FOREIGN EXCHANGE

Nightmare for governments

***James Blitz** on the problems central banks face in currency markets*

FOR THE banks which deal in the currency markets, the past 12 months have brought huge volatility in exchange rates and huge profits.

But for government leaders committed to defending exchange rate targets, the last year has been a nightmare. Events in the currency markets provide the clearest indication yet that the globalisation of capital – one of the most striking developments in the world economy in recent years – is making it difficult for central banks to manage exchange rate movements.

In the late 1980s, the Group of Seven leading industrial countries had much success managing exchange rate moves by buying and selling their currencies in intervention operations.

The Plaza and Louvre accords helped to control the movements of the dollar. Research has shown that of the 17 episodes of co-ordinated intervention between 1985 and 1991, all were successful at moving exchange rates in the desired direction.

But, since the last autumn central bank intervention has been a story of failure. The US authorities failed to prevent a sharp fall in the dollar last August. And repeated intervention by European central banks failed to stop the virtual collapse of the European exchange rate mechanism.

Discrepancies in national monetary policies partly explain why the ERM's central banks failed to maintain the system's tight fluctuation bands. Foreign exchange dealers realised that the goal of sustaining the value of the French franc through high interest rates was unsustainable at a time of rising French unemployment.

But a far bigger problem for monetary authorities has been the growth of cross-border capital flows following the removal of exchange controls in most industrialised countries. Investment flows in the foreign exchange market have increased dramatically in recent years, pushing foreign exchange turnover up to $1,000bn a day. This dwarfs the reserves of the central banks and makes it difficult for them to intervene in markets.

As the International Monetary Fund said in a recent report: "When private markets, led by the increasing financial muscle of institutional investors, reach the concerted view that the risk/return outlook for a particular currency has deteriorated significantly, a defending central bank can be faced with a run that could easily amount to, say, $100-200bn a week."

Why have flows in the currency markets reached such huge proportions?

■ The increasing proportion of cross-border holdings of bonds and equities by institutional investors has led to a huge increase inflows.

The International Monetary Fund recently reported that cross-border equity holdings in the US, Europe and Japan increased from $800bn in 1986 to $1,300bn in 1991 – and the figure is set to rise further.

These cross-border funds not only dwarf central bank reserves in size, but fund managers can also successfully hedge exposure to exchange rate movements by shifting the weightings in parallel currency funds rather than selling assets outright.

■ Most of the G7 governments face large budget deficits as a result of expansionary policies in the 1980s. They have raised government bond issues in huge quantities to help meet their borrowing requirements – but they may have undermined their currencies by courting foreign investors in this way.

French bond sales go some way to explaining the vulnerability of the franc. According to some analysts, while France's total tradable public debt has recently increased by 50 per cent, non-resident holdings of French paper have risen 1,000 per cent in the same period.

■ Foreign exchange dealing is becoming an increasingly attractive way of taking financial risk without falling foul of central banks' capital requirements. A dealer can quickly move in and out of a currency, making a return but not retaining a large outstanding position at the end of the day's trading.

The growth of foreign exchange volumes – and its impact on exchange rates – is not something that central banks are happy to ignore.

ERM membership was seen by European countries as a way of importing Germany's tough anti-inflation policy through the exchange rate. Sharp fluctuations in exchange rates are seen as a hindrance to trade. In the summer, the US administration successfully talked down the dollar/yen exchange rate, thereby beating Japan into submission on the issue of its trade surplus.

So how can central banks respond to the problem?

Some thoughts were recently suggested by Mr Andrew Crockett, the head of the Bank of England's international division. He argued in a paper that the integration of capital markets meant central banks need to come up with more credible ways to move towards exchange rate fixity.

Mr Crockett says that the route from flexible to fixed rates should not be the gradual one of progressive hardening through something like an exchange rate mechanism.

Instead, countries must first establish a track record of price stability during periods in which their exchange rates are relatively flexible.

"The attempt to use hard exchange rate constraints to enforce price level convergence when the initial position is one of substantial inflation divergence has considerable dangers," he says. "International portfolio managers will inevitably be sceptical about whether external disciplines will be allowed to work when domestic disciplines have proved inadequate."

Mr Crockett also argues that countries which fully fix exchange rates have important advantages over those who operate fixed but adjustable policies.

"There are advantages in convincing markets that the instrument of exchange rate adjustment has ben abandoned," he says. "The more markets believe that other forms of adjustment will always be used in preference to exchange rate realignment, the less likely is exchange market pressure to arise in the first place."

هكذا من الأجل

JOBS: The snag with careless language is that the way we talk of things reflects how we think of them

What distinguishes play from working

WHETHER parents gave up saying such things after about 1950, the Jobs column can only conjecture. But there's no doubt that its own old ears still ring with a phrase dinned into them in boyhood, to wit: "The time for play is over; get down to some *work*!" The result is that I've grown up believing those two activities are importantly different.

What causes me to suspect parental habits changed years ago is that, nowadays, even people of fairly respectable ages don't share the same abiding belief. Or so it would seem, at any rate, from the way they talk.

Only one among many recent examples was a comment made by the chief of a company about executives being thrown out of their jobs. His words were: "Increasing competition means we can't afford to pay any players who aren't absolutely first class."

The term *players* struck me as so wrong in the context that my impulse was to ask him which games he paid them to play. Experience, however, led me to stay silent. When I have raised the same point with others on previous occasions, their typical response was to peer at me oddly and say they must move on.

Even so, I have finally decided to raise it just once more because another of my abiding beliefs is that the way we talk about things reflects how we think of them. In which case, there are surely dangerous implications in calling people "players", as though they were indulging in mere pastimes, when actually referring to their efforts to earn their bread.

There could well be a warning in the only other society which, to my knowledge, has failed to distinguish between the two activities. It is the Yir Yoront tribe of aboriginals in north-east Australia whose language, according to a study by the anthropologist Lauriston Sharp in 1958, recognises no difference between work and play. While that may serve them OK, though, English-speaking nations aren't in the Yir Yoront's economic position – or at least not yet. We might therefore be wise to avoid following suit.

For it might be that the steps the Brits have already taken along that particular linguistic road are not entirely unconnected with what has happened to native British manufacturing.

It perhaps bodes no harm to talk of "players" when referring to financial go-getters in the City of London, where I first heard the term used in that way. After all, "playing" in the restricted sense of "gambling" is a fair description of what they do. The trouble is that the usage has since spread to manufacturing and other sectors where the same justification does not hold good.

Moreover, the people who now apply the term cavalierly across all sectors include politicians as well as economists and such. Hence there might be a deep-seated assumption in influential quarters that manufacturing and all the rest are much like City operations. As further evidence, it is not all that long since I heard certain policy-advisers, if not policy-makers, privately welcoming redundancies in the finance sector on grounds that they'd free "clever" City people "to go and run industry".

But notions like those amount to a ludicrous oversimplification of the activities of the other sectors in which just risking money, however cannily, is far from the only thing that counts. Hence, for industry's sake, it seems time we ceased calling workers "players" altogether, and began focusing sharply on the important differences between games and the business of earning our keep.

For a start, although the basis of City operations can sensibly be likened to "playing at the tables", that does not place the finance sector's activities on the sporting side of the divide. The fact that they have a far-reaching effect on countless types of real-life work makes them an instance of it too.

A further instance is politics. It's true the western democratic sort hinges on games of make-believe, with different parties publicly indulging in flights of fancy with the aim of attracting votes. It nevertheless belongs in the work category because which party wins power has an impact on the far from make-believe prospects, and perhaps survival, of large numbers of people.

The same does not apply to games and sports which are played more or less according to their own man-made rules, if not for their own sake. Moreover, while they might have had a real-life application when first devised, they often leave it behind in their development.

An example is the high-jump event. Excellence at it could enable people to escape a pursuer by clearing a lofty obstacle that forced the chaser to make a detour – always provided that the jumper was able to go on running quickly after landing.

At the time the Jobs column was nearing mere middle age, the world high-jump record had been inched up to some two metres. Since then the record has soared by about a quarter as much again.

The inching-up was done with techniques like the Straddle in which good jumpers landed feet downwards so that, despite falling on hard earth, they were fit to get up and go. The soaring came with the change to the Fosbury Flop. But it entails a back-down descent which would scarcely guarantee the jumpers' fitness if they had to land on solid ground instead of a cushion.

So the height has gone up at the cost of real-world application. Since the rule-makers aren't interested in the coming-down bit, however, that doesn't matter.

Yet oddly enough, although such exercises belong to the games category, they are found in the world of work including even manufacturing industry. An example has just been reported by a necessarily anonymous reader in the shape of the frequent management committee meetings of his outfit, a large group's subsidiary.

When he joined 20 years ago, he says, the meetings spent a good deal of time on innovation. The various managers bounced speculative ideas off one another in front of the listening chief, who rarely said anything but "Yes, start on that" or "No, forget it". Nowadays the free-wheeling speculators have been succeeded by aggressively ambitious heads of sections, and the chief does much more of the talking.

"If you came along, you'd be very impressed because they all not only know their stuff, but can put it over cleverly," he adds. "Anyone who says something contradicted by the known facts gets cut to pieces, and nobody cuts better than the managing director. Unfortunately, the fear of being razored stops people from saying anything they are not sure of, and in my experience making new discoveries often depends on people being willing to risk being exposed as ignorant. Thus we've gained in knowledge of what we're doing now, but lost out on innovation."

Now, unless the Jobs column is Yir Yoront aborigine, that is a case of the Fosbury Flop in an industrial arena – which has implications for the focus on the differences between work and play. For the two aren't totally fenced off from each other. Games, at least, spill over into working activities Even if possible, identifying and ejecting such games need not be beneficial, because they may be productive if not fun to boot. But if they are neither, it's surely worth moving mountains, not to mention the rule-makers, to get rid of them.

Michael Dixon

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Engineering and Physical Sciences Research Council

Up to £90,000 p.a.

The largest of the research councils, the EPSRC will promote and support research and post-graduate training in engineering, chemistry, physics and mathematics, with special emphasis on meeting the needs of the users of its research and trained manpower in order to enhance UK competitiveness and the quality of life. Improving the interaction between those funded by the Council and UK industry and commerce will be a high priority.

Particle Physics and Astronomy Research Council

Up to £60,000 p.a.

The PPARC will promote and support research and post-graduate training to improve understanding of those concepts and principles underlying physical phenomena and their consequences. Unlike other Councils it will almost exclusively support basic research, but will be expected to exploit the scope for industrial spin off. Responsibilities will include management of the Royal Greenwich Observatory, the Royal Observatory Edinburgh and other UK capital investments in observatories abroad, and for UK subscriptions to CERN and the European Space Agency Science Programme.

Natural Environment Research Council

Up to £80,000 p.a.

Responsible for promoting and supporting basic research and post-graduate training in the physical and biological sciences, the NERC's mission has been extended to cover earth observation. The NERC's primary aims are to enhance understanding of man's impact on his surroundings and their influence on his activities, so assisting the development of policies for the sustainable exploitation of natural resources.

Based in Swindon, you will be responsible for leading the activities of your Council and for ensuring the highest standards of professional management. This includes putting in place effective systems for financial management and control. Probably in your mid-40's to 50's you must have proven experience in the management of change, preferably gained in a large academic, industrial or Government organisation, and be able to command the confidence of the communities covered by your Council's remit.

These are 4-year appointments in the first instance with the possibility of extension.

An equal opportunities employer.

For further details and an application form (to be returned by 15th October 1993) write to Recruitment & Assessment Services, Alencon Link, Basingstoke, Hampshire RG21 1JB or telephone Basingstoke (0256) 468551. Please quote reference B/94/1970.

RAS Recruitment & Assessment Services

Putting People And Service First

A large organisation in the United Arab Emirates, with branch operations in the Kingdom of Saudi Arabia and Sultanate of Oman, engaged in the marketing and distribution of international brand lines and private-label products in the FMCG categories of food, detergents, toiletries and tobacco, is looking for a:

GENERAL MANAGER

Circa £60K Tax-free + Benefits

The right person for the job would have extensive senior managerial experience in the FMCG wholesale sector and be fully conversant with marketing, administration, budgeting and finance. He should be at home with multi-product strategy planning and be able to direct and guide his sales and marketing team. A flair for innovation in decision-making and a vision of growth will form an integral part of his job description.

A generous salary, furnished accomodation, company maintained car, etc., will be made available to the right candidate. Previous experience in Gulf markets would definitely be considered an asset.

Please Apply to:
PRIME/GM/BE, 26 Tavistock Street, London WC2E 7PH, England
(All correspondence will be treated in the strictest of confidence)

Brussels Based,

Ingram Micro Inc. is the world's largest wholesale distributor of microcomputer products. Our worldwide headquarters are located in southern California and we are currently present in six European countries with our European Coordination Center based in Brussels.

In order to sustain our growth in a challenging market, we are looking to recruit two multilingual candidates willing to travel extensively within Europe, based at our Coordination Center in Brussels.

BUSINESS PLANNING MANAGER

You will monitor the planning and budgeting process throughout Europe, organize and lead monthly meetings, report on results and objectives progress to both European and US senior management.

University graduate, 5 years experience, you are able to communicate effectively and assist our local Chief Financial Officers in improving their local B & P reporting.

ACCOUNT MANAGER

You will assist our European subsidiaries to keep clean and accurate ledgers, while reassessing the adequacy of existing policies and procedures.

You are a university graduate with strong analytical and problem solving skills and at least 3 years professional experience in an auditing function.

INGRAM MICRO

If you feel that your qualifications and experience match the above, please send your CV and details of your current salary to :

Ingram Coordination Center
Attn. Ms. Caroline Johnston, European Human Resources Manager
Leuvensesteenweg 11, 1932 Zaventem, Belgium

Lipper Analytical to Expand in Europe.

Seeks 3 Senior Directors.

Are you the best candidate for managing director, sales manager or technical director for *Lipper Analytical Services International?* As we commit more resources to the open end and closed end fund industries outside the US, we need established successful professionals with proven records of achievement to join the local operation of our internationally focused company. The three successful candidates will have led teams building and marketing commercial software and/or print applications for professional fund managers, or will have created and administered financial databases.

Solid records of achievement in an entrepreneurial environment are prerequisites for our search. We will offer competitive compensation packages which allow for career opportunities in the UK, USA, Continental Europe and the Far East.

If you would like to discuss any of these opportunities, and are available for interviews in London during September and October, please forward letter with supporting statements of your past successes, CV and remuneration history to *Mr. A. Michael Lipper, CFA, 74 Trinity Place, New York, NY 10006 USA, or fax to 212-393-9098.*

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071-873 3460

DIRECTOR
INVESTMENT CONSULTANCY

US-based investment and financial consulting firm working with charities, pension funds and wealthy families, seeks a senior level consultant to open a London office, provide overall management and direction of the office, work with clients, and market to prospective UK and European clients. Working in conjunction with the US operation, the senior consultant will advise clients' boards and senior executives on issues related to investment policy (asset allocation, investment manager selection, portfolio analysis, non-marketable securities etc.) Candidates must possess knowledge of investment management theory and practice including a thorough understanding of UK capital markets and investment managers, strong analytical skills (both conceptual and quantitative), excellent writing ability (sample required), and excellent oral and presentation skills. Compensation consistent with level of position.

Apply in writing to Box B1645, Financial Times,
One Southwark Bridge, London SE1 9HL.

Standard Chartered

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United Arab Emirates

Attractive Package in Tax Free Region — Dubai

Exciting opportunity for an experienced and innovative banker to lead a successful personal banking business in dynamic economic environment.

THE COMPANY
- Standard Chartered Bank Group has an unrivalled global network of offices. Particularly strong in Middle East, Asia-Pacific and Africa.
- Continuous presence in Gulf for over 60 years. Sound, profitable, growing. Firmly committed to the region.
- UAE product range includes personal and corporate banking services: trade finance, treasury, credit and advisory.

THE POSITION
- Direct all marketing, operations and administration of Personal Banking in UAE.
- Lead talented multi-national team of c.250 across seven branches. Ensure highest standards of customer service.
- Implement business development strategy in competitive market place. Drive new product creation and launches, marketing and PR activity.

QUALIFICATIONS
- Experienced retail banker. Wide knowledge of products, including consumer finance, gained with major player in key financial centre.
- Innovative, commercial, energetic. Sound man-manager. First class communicator. Confident team player.
- Graduate, may have professional qualification. Track record of success managing multi-branch operation. Previous overseas experience useful.

Please write, enclosing full cv, ref M3660
NBS, 54 Jermyn Street, London SW1Y 6LX

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EXCELLENT SALARY & BENEFITS · CITY

Managing the credit risk of receivables finance

A new role for a structured finance professional

The European Corporate Finance business of Swiss Bank Corporation, one of the world's premier international investment banks, has recently undergone dynamic organisational change. A key element has been the restructuring of the origination and management of credit portfolios. This has created an excellent new opportunity for a London-based banking professional with the skills to manage the credit risk of receivables finance facilities booked in London and other European offices.

The multi-faceted brief carries responsibility for managing the risk of existing asset-backed portfolios and analysing new proposals whilst also working as part of the team originating new transactions.

We are seeking a talented graduate with a credit banking background and at least two years' experience in structured finance – preferably including receivables Strong negotiation skills and knowledge of documentation are essential, whilst a European language would be an advantage. As a professional with excellent communication skills, you will be joining a bank which has proven distribution, a high profile and a commitment to innovation in this sector.

If you are interested in this opportunity, please write with your cv to: Cathy Hackett, Swiss Bank Corporation, Swiss Bank House, 1 High Timber Street, London EC4V 3SB.

Swiss Bank Corporation

THE FUJI BANK, LIMITED

Fuji Bank, the 4th largest bank in the World, manages all of its European activities through Headquarters located in London.

UK CORPORATE MARKETING
c £35,000-£40,000

To enhance its competitive edge in this area the Bank wishes to recruit additional young Lending Managers who are already familiar with the UK sector. With responsibility for relationship management the successful candidates will also be expected to generate sound new business and will possess the following attributes:

- formal credit training
- education to degree level
- proven track record in business generation
- thorough knowledge of treasury products
- experience of loan facility documentation
- ability to communicate effectively at senior management level both internally and externally.

PROJECT FINANCE
c £33,000-£40,000

Following a recent re-alignment of responsibilities and a commitment to expand in this sector the Bank is seeking an additional member of staff (aged around 30) with at least 3 years experience in an active project finance environment to further strengthen the existing team.

The successful candidate will have the following qualities:

- a self starter
- able to develop and maintain new business
- proven credit skills
- experience of credit & security documentation
- education to degree level
- potential to move into a management role.

Please write, with full CV to: Mike Furlong, Assistant General Manager, The Fuji Bank Limited, River Plate House, 7-11 Finsbury Circus, London EC2M 7DH.

Head of Product Management

Salary negotiable + banking benefits — C. London

Securities Services is a highly successful division of the Royal Bank of Scotland, offering a wide range of Custody, Corporate Trustee and Registration services to institutional investors and corporates. With a substantial presence and reputation in securities markets worldwide, the Royal Bank of Scotland is the only UK bank to enjoy a position in the Top Ten list of Best Global Custodians.

In this key role, you will organise the development of both existing and new products, to further enhance the Bank's reputation and profitability in this important sector. Leading a small team, you will be responsible for all aspects of the product life cycle, from research into customer needs through to pricing and promotional strategy and implementation.

As a member of the Divisions' senior management team, you will also contribute to the development of business strategy. This will include an input to decisions on technology priorities.

A graduate, with relevant professional qualifications, you must demonstrate considerable hands-on experience of product management and specialist knowledge of securities markets worldwide. You should have a strong capacity for conceptual and strategic thinking, as well as a pragmatic and thorough approach to project detail. Your persuasive communications skills combined with a high degree of personal and professional credibility will be essential in winning support for your proposals from both senior management colleagues and customers. Equally important will be your belief in and commitment to teamwork.

This is a rare opportunity to influence the progress of a thriving business with the backing of one of the UK's major financial groups. Prospects for career and personal development are excellent as is the remuneration package on offer.

To apply, please write with full CV to David Thick, Senior Personnel Manager, The Royal Bank of Scotland plc, Regent's House, 42 Islington High Street, London N1 8XL.

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Private Client Stockbroking

New opportunities with a leading market player

Birmingham — Excellent Package

This well established stockbroking firm enjoys a long-standing reputation as a leading agency house and services a loyal client base throughout the UK. Its parent company is a highly respected and successful financial institution which has actively supported the business with considerable investment in technology, facilitating quality research and efficient administration.

It intends to continue its expansion by opening a new office in Birmingham. There is a need to attract a number of individuals to establish and develop this office into a significant operation.

Ideally, candidates will have a strong track record as successful private client stockbrokers with a network of clients and contacts within the region. They will also have the ability to develop long-term client relationships through sound judgement and efficient service.

We are looking to attract individuals with varying levels of experience to build a well-balanced team. Personal qualities must include tenacity, integrity, self confidence and energy, as well as the ability to communicate effectively with both colleagues and clients.

The remuneration package will be flexible and tailored to the individual. It will comprise the usual executive benefits, including a performance-related bonus, and will not be a limiting factor.

Please send a detailed CV to GKRS at the address below, quoting **reference number 228J and including details of current remuneration and availability.**

GKRS
SEARCH & SELECTION
CLAREBELL HOUSE, 6 CORK STREET, LONDON W1X 1PB. TEL: 071 287 2820 FAX: 071 287 2821
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FLEMINGS

SOUTH-EAST ASIAN SECURITIES - PARIS BASED

Robert Fleming (France) has a highly successful team selling South-East Asian securities on behalf of Jardine Fleming in the Far East to European institutional clients. An opportunity has now arisen for an additional sales person in the Paris office to take responsibility for clients in France, Benelux or Scandinavia.

Ideally, the successful candidate will already have a well-established reputation with institutional clients in at least one of those markets. It is essential that candidates be fluent in English and French with additional language skills being desirable. A strong entrepreneurial spirit combined with a willingness to be a team player, 2 or 3 years' experience on the South-East Asian markets and a strong background in finance and economics are all ideal characteristics.

A competitive remuneration package will be offered to the successful candidate.

To apply for this exciting opportunity, please write with details supporting your suitability to:

Mme Agnès Bene
Personnel Manager
Robert Fleming (France) S.A.
39-41 Rue Cambon
75001 Paris

SPOT EMS — £60,000
Senior dealer aged 27-35 is required by a well respected British bank. 4 years experience of trading Spot EMS currencies is necessary. Responsibilities will involve proprietary position taking and quoting prices to clients, fund managers etc..

SPOT CROSSES — £60,000
Opportunities exists at a high profile European bank for Spot interbank dealers. A minimum of 2 years experience trading Crosses to include DEM/JPY, ECU/DEM, DEM/ITL or DEM/FRF is essential. Candidates aged between 24 and 32 will come from a recognised trading background and have a consistent record of profitability.

CORPORATE — £50,000
Treasury services desk at a top North American bank requires an experienced F.X. sales dealer. The role will involve marketing to the continent and servicing existing clients with the full range of Treasury products. Graduates aged 24-30 are preferred. European languages would be an advantage.

CURRENCY OPTIONS — £50,000
Due to expansion a leading US bank wishes to appoint a dealer with 3 years current expertise, to enhance its trading/marketing capability in F.X. Derivatives. Candidates will be graduates in the age range of 27 to 33 and should be proficient in the delivery and execution of exchange traded & OTC Options.

FOREX Selection
Treasury Recruitment

Please call Jane Hampton or write in confidence quoting ref: JH1863.
Tel: 071-369 0369.
36 Cornhill,
London, EC3V 3PQ.
Reuters Page LO7I

SMITH NEW COURT SECURITIES LIMITED

OIL ANALYST

Smith New Court , one the UK's leading Independent Securities Houses, is seeking to recruit an Analyst to strengthen the Oil and Gas team within the UK Research department.

Primary responsibilities are to follow the exploration and production sector of the Oil and Gas industry and to communicate investment recommendations to both institutional clients and relevant employees of the Company.

The requirement is for an individual who has had a minimum of four years experience with an Oil and Gas operating company or consultancy. Familiarity with all aspects of the upstream Oil and Gas industry and experience in the financial analysis of this industry are necessary.

It is essential that the individual is qualified with a degree in either Geology, Engineering or a financially oriented subject. Motivation, numeracy and excellent oral and written communication skills are important.

We offer a varied, challenging career in a dynamic environment with a highly competitive remuneration package.

Please submit your application, including a CV to:

**Kirsten Wright, Personnel Department,
Smith New Court Securities Limited,
Smith New Court House,
20 Farringdon Road,
London EC1M 3NH**

PRINCIPAL INVESTMENT BANKING

Well established London and New York based international investment firm is seeking to appoint an additional Principal to its European corporate acquisition team.

The successful candidate will be a senior investment professional and will have:
- up to 10 years investment banking or venture capital experience.
- proven M&A and/or LBO/MBO transactional and project management skills
- financing and capital markets expertise.
- an MBA from a leading US or European business school, and/or
- a professional accounting or strategic consulting background gained with an international firm and, preferably
- European linguistic ability

Compensation will include competitive remuneration plus equity and co-investment participation.

Please send resume and a summary of transactional experience to: Tim Clarke at **THE BLOOMSBURY GROUP, Executive Search,** 177 High Holborn, London, WC1V 7AA or Fax No (071-240 7460) or telephone 071-379 1100 for more details.

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Merci d'envoyer lettre de candidature, CV + photo et prétentions sous réf. FT 39 à HERMES: 14, rue Lantiez - 75017 Paris qui transmettra. Discrétion assurée.

JOSLIN ROWE

DERIVATIVES RISK — to £45,000
An excellent opportunity has arisen within a leading International Bank for an ACA/ACCA qualified Accountant with indepth knowledge of Equities and their Derivatives. This varied and demanding role encompasses monitoring trading risk exposure, P&L, management accounts, budgets and ad hoc project work. The successful candidate will have 3 years' relevant PQE and be aged 28-35 years.

DATABASE MANAGER — c£30,000
Major Securities House seeks a dynamic individual with strong leadership skills for the hands on management of all London database maintenance. You will be ensuring the synchronisation of all trade workstations and maintenance of all client/product masterfiles. This will prove to be a particularly rewarding position as the company continues its initiative to be a leading innovator of products throughout the 90's.

PRIVATE CLIENT MANAGER — c£30,000
Leading International Bank currently seeks to appoint a Private Client Relationship Manager with a background in Investment Management or Stockbroking. Candidates should be aged 30-35, possess relevant experience and a general knowledge of both Bonds and Equities. The successful candidate will be required to advise on client portfolios, ensure timely administration, visit clients and develop new products.

FOREIGN EQUITY OPERATIONS — £neg.
Due to an extensive increase in trading volumes, this leading US Investment Banking Group seeks to recruit an individual with experience of the European and/or Emerging Markets. Candidates should possess a minimum of 3 years' experience from a high volume house. High levels of motivation and commitment are required for this demanding environment.

See details of further vacancies on Reuters page L071

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Compliance Executive

A superb opportunity to play a proactive role in the growth of a major global business

£ Highly Competitive

Our client is one of the world's most respected and successful banks. The extensive product range of their Treasury/Capital Markets operations incudes sales and trading of fixed interest products, futures, options, FX, money markets products, equity derivatives and proprietary trading.

A Compliance Executive is sought to complement the existing compliance team. This individual will advise the business on specific transactions, new products and existing procedures to ensure compliance with both regulatory requirements and in-house controls. Additionally they will plan, monitor and execute compliance reviews along with existing staff.

An enthusiastic, hands-on approach sympathetic to the requirements of the business is essential. This should be combined with a firm but diplomatic approach and the flexibility to operate in a large diverse bank which continues to grow and develop in its core markets. Ideally candidates will have a knowledge of capital markets products, SFA rules and other relevant regulations.

This is a superb opportunity to utilise an individual's personal skills and develop their knowledge across a broad range of business issues. Career progression and opportunities, either within the compliance function or alternatively within the business, are second to none.

Applications are invited from a wide range of backgrounds and levels as personality, attitude and an understanding of the business are more important than specific compliance experience.

Interested applicants should contact **Anna Williams** on **071 831 2000** or write to her, enclosing a full curriculum vitae and details of current salary package, at **Michael Page City, Page House, 39-41 Parker Street, London WC2B 5LH.**

Michael Page City
International Recruitment Consultants
London Paris Amsterdam Dusseldorf Sydney

Investment Analyst

UK Equities

Our client, a blue chip asset management company with over £9 billion funds under management, seeks to strengthen it's UK Equity Research Team by the appointment of an additional analyst. Reporting to the UK Research Manager you will be responsible for acquiring in-depth knowledge of companies in a small number of industries and sectors. Whilst utilising brokers research, analysts are expected to develop direct communication with companies and undertake original fundamental research. Analysts work in close co-operation with the fund managers and are an integrated part of the investment process.

Candidates must be graduates in their twenties with one to two years investment experience. Excellent communication skills are essential. Above all candidates must have the ability to think independently and to back their own judgement. A highly competitive salary and benefits package is available for the right candidate.

Interested applicants committed to investment analysis should contact
Paul Wilson at Michael Page City,
Page House, 39-41 Parker Street,
London WC2B 5LH.
Tel: 071 831 2000.
Fax: 071 405 9649.

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We are the world's largest international law firm with over 2,000 lawyers practising in over 50 locations throughout Europe, North and South America, the Middle East, Australia and the Pacific Basin. We are looking to fill the following positions:

BANKING AND COMMERCIAL LAWYER-TOKYO

An exciting and challenging opportunity for a senior English solicitor with experience in a broad range of banking, finance and corporate matters to work in Tokyo. The primary role will be to service and develop the English related work of our Japanese clients.

Experience should include:

- **not less than 4 years post qualification experience with a major law firm**
- **good business development skills**
- **preferably an ability to speak Japanese and/or prior experience in Tokyo, but this is not essential**

The candidate will spend an initial period in our London office prior to moving to Tokyo

MOSCOW

NATURAL RESOURCES LAWYER

A significant role in developing our oil and gas practice in the CIS.

Experience should include:

- **3-6 years' post qualification experience either with a major law firm or in the oil and gas industry**
- **substantial experience in negotiating licences and drafting commercial agreements**

COMMERCIAL LAWYER

A wide range of commercial work including joint ventures, commercial contracts and corporate matters.

Experience should include:

- **3-6 years' post qualification experience (preferably with a major law firm)**
- **good drafting skills**
- **substantial experience in commercial negotiations**

An ability to speak Russian is preferred but is not an absolute requirement.

Please reply in confidence with full curriculum vitae to Joanna Darby, Baker & McKenzie, 100 New Bridge Street, London EC4V 6JA.

US INVESTMENT BANK

Corporate Treasury

"Europe-wide responsibility for managing relationships with banks, creditors and investors"

London **£ Excellent**

Our client is a global US investment bank with a reputation for excellence. To support its business, the Firm uses credit and non-credit services extended by a wide range of banks and creditors worldwide. Our client is currently seeking a high calibre individual to manage these relationships within Europe.

The position has three key dimensions:

- To negotiate and monitor the letters and lines of credit extended by European counterparties to meet the funding needs of the Firm's businesses;
- To co-ordinate the selection of the clearing banks used to provide additional operational support;
- To act as the contact point for the Firm's investor base in Europe.

The successful candidate will be a dynamic individual of graduate calibre who can successfully market the Firm on behalf of the funding desks, to ensure the European banks and creditors offer adequate, attractively priced banking and credit facilities. This requires excellent oral and written communication skills. The individual will have a strong background in credit combined with a knowledge of the securities industry and its products. The candidate must be capable of developing a keen understanding of the Firm's organisational structure, corporate strategy, internal documentation, credit and operating policies. Therefore familiarity with bank operating procedures, cash management theory, commercial bank products and clearing services would be an advantage. Additionally, a European language would be of benefit.

This is an exciting and challenging position, with good prospects. For the right candidate an attractive package, based on a generous salary, will be awarded.

Interested candidates should contact **Karina Pietsch** on **071 831 2000** or write to her enclosing a full curriculum vitae at **Michael Page Finance, Page House, 39-41 Parker Street, London WC2B 5LH. Please quote reference 163912.**

Michael Page City
International Recruitment Consultants
London Paris Amsterdam Dusseldorf Sydney

Investment Advisor – Unit Trusts

Private Investor Division

Leading Investment Management Group

Excellent basic salary + banking benefits

Our client is the Unit Trust subsidiary of a well known international investment management group and part of one of the city's most successful Merchant Banks. With over £2.5 billion of unit trust funds under management our client is one of the most highly respected names in the industry. An excellent investment performance record coupled with marketing initiatives has resulted in a high level of interest from the investing public and an executive is now sought to join a small but expanding team.

Your brief will involve handling investment enquiries from the general public, on the telephone, by correspondence and at client meetings. You will be responsible for communicating the house views on markets and advising on the company's range of products.

It is essential that you are an investment specialist. Probably aged 35-50 this opportunity will appeal particularly to a private client stockbroker. Highly articulate and with a good telephone manner you will possess strong communication skills. You are mature, diplomatic, of the highest integrity and able to work with the minimum of supervision.

In the first instance, please write or telephone, quoting reference 953 to Fiona Law at FLA Ltd, 211 Piccadilly, London W1V 9LD. Tel: 071-738 9732. Please ensure your application reaches us by Friday 1st October 1993.

FLA
SEARCH, SELECTION AND CONSULTANCY SERVICES

Assistant Director
Corporate Finance

French Speaker

City

Substantial Package

Our client is a leading British merchant bank which has offices in London, the U.S.A. and Japan and associates in Continental Europe.

It is currently seeking to strengthen its London based international corporate finance team, with the appointment of an experienced investment banker, who will have specific responsibility for generating business in France. The appointee will be expected to become fully cognisant with the strategic requirements of the Bank's clients and have the experience and ability to generate merger and acquisition business between France and the U.K.

The opportunity will appeal to an investment banker (aged 30-35) with an established track record of advising on merger and acquisition transactions in France, as well as possibly other European countries. Experience should have been gained with a leading European, U.S.A. or U.K. investment bank. Our client has a strong preference to recruit a French national, although other applicants who have lived and worked in France will be considered. Fluency in written and spoken French and English is essential.

This is a senior appointment which offers an excellent opportunity for career development based entirely on merit. The remuneration package will be constructed to attract exceptional individuals.

For further information in strict confidence contact David Craig or Brian Hamill on 071-287 6285. Alternatively, forward a brief resumé to our London office quoting reference DC1208.

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Career opportunity; scope for rapid progression, with longer term opportunities in origination

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CITY OF LONDON

£35,000-£45,000 + BONUS, MORTGAGE SUBSIDY AND FULL BENEFITS PACKAGE

MAJOR INTERNATIONAL SECURITIES HOUSE

Our client is well-ranked in the league tables and is very active in the broad range of cross-currency and asset swaps, etc. Applications are invited from graduates/PhD's in a mathematical discipline, with good practical PC skills, a thorough initial training with a leading bank or securitities house, a knowledge of the international debt markets and a minimum of two years' experience on an active swaps desk. The successful applicant will work closely with the Head of Swaps, keeping in close touch with the market and executing transactions. There will be close liaison with origination and syndication, as well as bond sales for structuring and pricing. This is an exceptional opportunity to learn from a leading individual in the field and we seek young, enthusiastic candidates with technical flair and the ability to work in a busy, pressurised environment. Initial remuneration is negotiable £35,000-£45,000 plus full benefits package. **Candidates wishing an initial confidential discussion please telephone 071-638 0680 (day) or 071-828 2891 (evenings) or write in confidence quoting reference NGSE4913/FT to the Managing Director, CJA.**

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FINANCIAL TIMES
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Research Assistant

Merrill Lynch London has an opening for a research assistant to support the work of its European Economic and Fixed Income Research group. The ideal candidate would be highly numerate, possess several years of experience working in the research support area, and have extensive experience with PC applications software, especially spreadsheets, word processing and desktop publishing packages.

A major portion of the job involves organization and analysis of data from Datastream and similar sources and presentation of the data in tabular or graphical form. Extensive hands-on experience with a presentation graphics package would be a strong advantage. The work demands a high degree of accuracy and the ability to organize and carry out projects with minimal guidance. An important aspect of the job is liaison with fixed income sales and trading staffs.

The position requires someone who is flexible, energetic, anxious to develop new skills and a strong team player. City experience would be helpful but is not a requirement.

Salary range is £20K-£24K, depending on qualifications.

Send a CV detailing your education and work experience to:
Richard Woodworth, Merrill Lynch Ltd., Ropemaker Place, 25 Ropemaker Street, London EC2Y 9LY.

Merrill Lynch

CLEVELAND COUNTY COUNCIL
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CHIEF EXECUTIVE AND TREASURER'S DEPARTMENT

LOANS AND INVESTMENTS SECTION:
Assistant Loans and Investments Officer: £18,615-£20,238

In order to reflect the growing importance of the Far East to Cleveland County Council's Superannuation Fund, a new post has been created to enable the management of its investments to be conducted 'in-house'.

The successful candidate will manage a portfolio of some £50 million, working within a small team of motivated managers with diverse responsibilities. Although some previous experience of fund management would be an advantage, a candidate with a recognised qualification in Banking or Finance and a proven record of written and verbal communication skills would be given the opportunity to undergo appropriate training.

Interviews will be held on Thursday 21st October, 1993.

Local Conditions of Service include a relocation package in approved cases, a casual car user allowance and flexible working hours.

Application forms and further details can be obtained from The County Finance Officer, Chief Executive & Treasurer's Department, PO Box 100, Municipal Buildings, Middlesbrough, Cleveland, TS1 2QH or by telephoning Middlesbrough (0642) 262257.

The closing date for application is Friday, 8th October, 1993.

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UBS is an international investment bank whose London office employs over 2,000 people. We are now seeking an equity salesperson specialising in small UK stocks to join our Small to Medium Company Sales and Research team.

Your role would be to market shares in small to medium-sized UK companies, largely to UK institutions. Working closely with our general UK salesforce, you would be one of a specialist sales team of four.

A good telephone manner, sales abilities and analytical skills are essential. However, you are also likely to communicate well, generate your own ideas and be a good team player. Probably a graduate, you will have at least 18 months broking experience and possibly fund management or industry experience too. If you can handle corporate and institutional clients with equal professionalism, this role could be your logical next move.

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We are seeking to appoint a Compliance Officer who will also undertake certain Company Secretarial responsibilities, reporting directly to the Managing Director. You will be responsible for liaising with the Group Compliance Department for the organisation of all compliance work for FPAM, a member of the SFA.

A detailed knowledge of SFA rules and relevant legislation is essential. You must have been trained and have gained experience in a similar role, possibly through regulating or auditing a private client stockbroker. Ideally you will hold a professional qualification. You will also have determination and exceptional inter-personal and communication skills.

A competitive salary will be negotiated and a first class package of benefits will be provided.

Please write, enclosing a full cv and details of your current remuneration to:

Angela Denneny,
Personnel Manager,
ROBERT FLEMING & CO. LIMITED,
25 Copthall Avenue, London EC2R 7DR.

REPUBLIC OF POLAND

THE MINISTER OF PRIVATISATION

hereby announces the place and time for submitting applications to the Selection Commission by persons wishing to participate in a competition for candidates for members of

SUPERVISORY BOARDS OF NATIONAL INVESTMENT FUNDS

The purpose of the competition is to select candidates for chairmen and members of supervisory boards of the National Investment Funds to be established as part of the Polish Mass Privatisation Programme. The competition involves an evaluation of the formal professional qualifications of the candidates, as well as an evaluation of their practical experience and knowledge of financial, economic and legal matters. The Minister of Privatisation, with the approval of the President of the Council of Ministers, shall appoint members of supervisory boards of the Funds from among candidates selected by way of the competition conducted by the Selection Commission.

The Funds will be established as joint stock companies, in accordance with the provisions of the Law referred to above, in or around January 1994. The Funds will be important economic entities, competing with each other, the shares of which will in due course be publicly traded on the Warsaw Stock Exchange.

Candidates participating in the competition must:

(a) be at least 30 years of age;

(b) have documented completion of Polish or foreign full university or equivalent studies in the field of law, economics or management, or completion of studies in a different field and in addition postgraduate studies in the field of law, economics or management;

(c) have documented professional experience in Poland or abroad for a period of at least 4 years;

(d) submit to the Selection Commission, at the address below, a written application (on a form provided by the Technical Secretariat of the Selection Commission), containing detailed personal data (first and last name, date and place of birth, marital status, citizenship, residence, data concerning education and professional experience, knowledge of foreign languages, any criminal convictions).

Address and deadline for submitting applications

Completed application and the documents referred to above should be submitted or mailed to the address of the Selection Commission's Technical Secretariat set forth below, no later than 15th November, 1993 (the date of the post office seal being decisive):

Technical Secretariat of the Selection Commission
c/o Department of National Investment Funds,
Ministry of Privatisation,
ul. Krucza 36
00-522 Warsaw
Tel.: (48 22) 29 25 87
Fax: (48 22) 29 71 29

The Technical Secretariat shall make available to interested persons the application forms referred to in item (d) above.

PROGRAM POWSZECHNEJ PRYWATYZACJI

Notification of intention to participate in the competition shall be treated as acceptance of the rules regulating the competition contained in the legal acts mentioned herein and in other regulations based on them.

The competition for candidates for members of supervisory boards of National Investment Funds shall be conducted by the Selection Commission pursuant to Art. 18 Para. 2 of the Law dated 30th April, 1993 on National Investment Funds and Their Privatisation (Journal of Laws No. 44, item 202). The detailed procedures of the Selection Commission in connection with the competition for candidates for members of supervisory boards of National Investment Funds are set out in the Ordinance of the President of the Council of Ministers dated 15th September, 1993 on the determination of regulations of the Selection Commission (Journal of Laws No. 86, item 400).

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Our client, a leading Scandinavian Investment Bank, is expanding its highly successful Northern European equity sales team, by recruiting an experienced salesperson to specialise in Nordic equity sales to major French institutions from its London office.

Ideally, candidates should have two to fives years' experience in Nordic equity sales and a proven track record of success; they must be of a high calibre, with fluency in English, Swedish and French, and have an existing client base in France. Ref. WS/09/1

Generalist

Our client is also seeking an experienced Nordic salesperson to focus on its UK clientele. At least five years' success and experience in Nordic equity sales and an established UK client base are essential for this challenging position. Fluency in English is required and Swedish would be advantageous. All candidates must be graduates and be able to demonstrate creative thinking and stamina in these competitive markets. Ref. WS/09/2

Career prospects for successful candidates are excellent.

Interested candidates should send a full curriculum vitae to Carol Jardine, Managing Director, Whitney Selection, 17 Buckingham Gate, London, SW1E 6LB, quoting appropriate reference number.

THE WHITNEY GROUP

WHITNEY SELECTION

MARCUS WALLENBERG CHAIR SCHOOL OF FOREIGN SERVICE GEORGETOWN UNIVERSITY

The Edmund A. Walsh School of Foreign Service, Georgetown University, announces a search to fill the Marcus Wallenberg Chair in International Diplomacy. Applications are invited from individuals who have distinguished themselves in the fields of international finance, banking, political economy, and business and business-government relations, combining practical experience with demonstrated academic achievement. As a member of the Landegger Program in International Business Diplomacy, the Wallenberg Professor will teach undergraduate and graduate students pursuing careers as practitioners in the public and private sectors. In addition, the Chairholder will help coordinate the School's extracurricular seminars and mid-management training in international business, finance, and public policy. The appointment will be made at the full professor level at a salary commensurate with seniority and qualifications. Applications should be submitted by November 15, 1993 to:

Dr. Charles E. Pirtle
Associate Dean
School of Foreign Service
Georgetown University
Washington, DC 20057-1052
(202) 687-5696
FAX (202) 687-1431

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Opportunity in Capital Markets

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It has successfully established itself in a number of niche markets and is a significant contributor to the Bank's profitability.

The Capital Markets Division is seeking a Japanese-speaking professional to expand its sales and trading activities in debt securities.

Position

The successful candidate's responsibilities will include.

- accessing and servicing mainly Japanese clients in Europe and the United States and
- expanding the Bank's existing Tokyo-domiciled client base.

Qualifications

- graduate, qualified banker, or other professional; SFA registration essential
- at least 2 years' experience principally in FRNs and higher-yield fixed rate bonds
- access to a genuine investor base.
- fluency in Japanese is essential

Package

Salary commensurate with skills and experience. Bonus payments and subsequent career progression based upon performance.

Please reply in confidence enclosing a full c.v. to Mrs Julia Brooks, Manager, Personnel, West Merchant Bank Limited, 33-36 Gracechurch Street, London EC3V 0AX or telephone Nick Priddle, Director, Capital Markets, on 071-929 3604 for further details.

WMB West Merchant Bank

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Candidates, probably in their early 40's, should be educated to at least good honours degree standard and possess relevant mainstream corporate finance experience. The successful applicant must be able to demonstrate proven initiative, an incisive approach to problem solving and have the necessary influencing skills to succeed at a strategic level. In view of the broad scope of the role it is considered that direct experience in credit/lending is essential.

Replies in strictest confidence should be sent in the first instance to Brenda Shepherd. Please indicate any organisations to whom you do not wish your details to be sent. We are advised by our Client that CV's must indicate current remuneration in order to be considered.

Applicants selected for interview will be advised by 29th October, 1993.

Fax 071-626 9400 — Ridgway House 41/42 King William Street London EC4R 9EN — Telephone 071-626 1161

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A fund manager to support the Managing Director is also sought and applicants for both positions should apply in writing to Robert Mowbray, MacIntyre Advisory Services Ltd, Ashley House, 18-20 George Street, Richmond, Surrey, TW9 1HD.

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ACCOUNTANCY COLUMN

The $30bn question behind US 'litigation crisis'

Lawrence A. Weinbach warns that opportunistic legal claims are threatening the future development of the profession

MUCH has been written lately about the "litigation crisis" affecting the accounting profession. Throughout the world, but particularly in the United States and the United Kingdom, claims against the profession have risen dramatically. A staggering $30bn in claims currently faces the largest firms in the US alone.

In 1992, the six largest US firms spent $598m – or 11 per cent of their revenues – in direct costs fighting such claims. Insurance recoveries provided an additional $185m in resolving claims.

The transaction costs themselves are so high that 95 per cent of claims are settled out of court. As a result of these costs and settlements, the largest firms have experienced a 300 per cent increase in liability insurance premiums since 1985. Two out of every five smaller firms are going without insurance altogether. Overexposure to litigation was a big factor in the 1990 bankruptcy of Laventhol & Horwath, then the seventh-largest accounting firm in the US.

Many feel that accountants have no one to blame but themselves. When a company collapses shortly after receiving a "clean" opinion from its auditors, it is frequently alleged that this indicates the auditors failed to do their job properly.

Unfortunately, such an assumption mis-states the purpose of an audit, which is a process in which past transactions are sampled to determine whether a company is following generally accepted accounting principles in reporting prior-year results. It is not designed to guard against future poor business decisions by management.

In a different era, historical financial information was considered a strong indicator of financial performance; but today that has changed. The rate of change in technology and telecommunications, the increased volume of data, frequent mergers and acquisitions, and the breakdown of barriers have all made the business environment more volatile than ever. Capital is far more liquid than ever before: vast sums of money are instantly transferred, anywhere in the world, with the punch of a button; on the global exchanges, securities are bought and sold at a dizzying rate.

Today, if a company has an unexpected disaster, it might incur the costs of clean-up, compensation, litigation, or consumer boycotts – factors that can be extremely difficult to estimate on a financial statement. In short, there are more ways to steer a company on to the rocks, with greater speed, than ever before. Yet the accountants, working in the engine room, receive the blame.

Nevertheless, there is merit to the larger criticism that accountants have not fully met the needs of the public. If the traditional audit does not do so, it should be modified; and I have argued over the years that accountants must redefine themselves and become more relevant to properly serve the needs of the marketplace.

The attest process, for example, can take greater advantage of technology to emphasise "real-time" data, as opposed to the quarterly or annual information typical today. Using our knowledge of clients and their industries, we can develop financial profiles, analyses and comparisons of business, and develop ways to detect important changes in performance as they occur. We can also develop forecasts, which – together with financial statements prepared on an historical as well as a current-value basis – can be presented as one package, attested to by the auditor.

The ultimate aim for accountants should be to broaden their role in the marketplace: to offer, in accordance with their expertise, whatever professional services are necessary to address marketplace changes, and that are relevant to meeting client, stockholder and other public needs. As the pace of change quickens and competition intensifies, accurate collection and interpretation of information can be the critical difference between a company's success or failure. More than ever, businesses and governments require the services of highly skilled accountants, consultants and other professional services providers.

However, the current environment constrains us from offering many of these services, because in broadening their range we also increase our exposure. Even now, our "deep pockets" make us a prime target for investors and other third parties looking for a scapegoat when a company fails. This is due principally to the legal doctrine of "joint and several liability," which holds that a convicted party can be held responsible for as much as 100 per cent of a loss, even if that party is found to have played only a minor role in the company's downfall.

The doctrine has created a cottage industry of opportunists who file claims regardless of merit. They use computers to follow volatility in the price of securities, and file "cookie-cutter" complaints right off their word processors. Many lawyers keep a roster of "professional plaintiffs" ready and waiting to file a class-action claim at a moment's notice. These "class representatives" may be friends or relatives of the strike lawyer, or a corporation created for the purpose of buying a few shares of stock in public companies.

This has produced a chilling effect on innovation by the accounting profession. Increasingly, firms are shying away from doing audits because of the potential liability. As a result, many small businesses are having a difficult time finding an auditor; yet these are often the kinds of businesses most in need of one, in order to attract capital. Meanwhile, professional services firms are discouraged from offering new services in high demand – such as environmental auditing – because of liability concerns. One survey found that four out of five US Certified Public Accountants have reduced the number of services they offer.

Even if they decide to offer such services, they may find they do not have the staff to do so. Young people are increasingly afraid to enter the profession. In the US, the demand for accounting graduates coming out of college increased by 53 per cent between 1981 and 1991, but the supply increased by only 2 per cent, while the proportion of students planning to study in this area dropped by 17 per cent. Meanwhile, at accounting firms some managers are refusing partnership. They must be thinking: "Why work all one's life just to lose most or all of my personal assets in a judgment against the firm – especially if I was not personally involved in the particular case?"

The first step must be to replace joint-and-several liability with proportionate liability; this would hold defendants financially responsible only to the extent they are found legally responsible, in those cases where fraud is not alleged.

Another important provision involves fee-shifting: this allows courts to require unsuccessful litigants to pay the winners' legal fees, if the court decides the claim was frivolous. This is a modified form of a practice that has always been followed in the UK and other countries. A third provision would eliminate abuses such as the payment of bounties to representatives of class action suits.

Perhaps the most important change would be a shift in society's attitude. I believe that when a party suffers a legitimate injury from an accounting firm or anyone else, compensation is rightly expected. But as a society we must step back from the dangerous tendency to believe that "someone must pay", even when we suffer as a result of no one's fault or because the fault is our own. When that kind of thinking is allowed to flourish unchecked, we all pay; and the price is always steeper than we realise.

The author is managing partner-chief executive of the Arthur Andersen Worldwide Organisation.

JM

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Group Treasurer

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Candidates, aged up to 45, must be qualified accountants who are experienced in the requirements of an international trading company, operating in an independent, entrepreneurially driven environment. Proven expertise in the areas of cost control, working capital management and the negotiation of banking facilities, coupled with personal maturity, strong communication skills and clear commercial vision, are essential.

Interested applicants should forward a comprehensive curriculum vitae, **quoting ref: 164230, to Alan Dickinson FCMA, Executive Division, Michael Page Finance, Page House, 39-41 Parker Street, London WC2B 5LH.**

MP

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In addition to fluent Arabic and English, a reasonable command of French would be ideal.

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Interested candidates should write to Joe Graham BA CA, Executive Selection Division, Michael Page Finance, 29 St Augustine's Parade, Bristol BS1 4UL. Please quote reference 164701.

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6.30pm — **6th October 1993** — **London WC2**

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Anyone interested in attending this unique event should telephone either **John Zafar, Andrew Norton** or **Stephanie Warren** at Michael Page Finance, Financial Services Division on **071 831 2000** for an Invitation Request Form.

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Likely to be around 30, applicants should be commercially aware graduate accountants with proven analytical experience and excellent communication and pc skills.

Please write, enclosing a career/salary history and daytime telephone number, to David Hogg FCA quoting reference H/82/F.

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Candidates will be qualified accountants preferably with hotel industry experience. They must have experience of multi-currency reporting and US GAAP, whilst also being confident with PC based computer systems. The ideal candidate will be creative, an effective communicator and possess the potential to develop as the Group continues to grow.

A salary of around £42,000 will be offered together with a benefits related package. Individuals interested in the position should write, in confidence, to Sean Connolly at the address below quoting reference SHC.3459.

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8 Baker Street, London W1M 1DA. Fax: 071 487 3686. A member of Horwath International

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The successful candidate is likely to be a graduate, ACA with a big six background and aged between 30-40. You will be able to display an excellent career to date, with a proven record of achievement.

Due to the planned automation of Pan-European reporting you will preferably have experience or training in IT implementation and control

Interested applicants should write or fax enclosing a detailed CV, to Alyson Essex, MSL Group Limited, 32 Aybrook Street, London W1M 3JL. Fax: 071-487 4375. Please quote reference N1384.

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The opportunities will appeal to candidates with good honours degrees who are preferably professionally qualified. Relevant mainstream corporate finance experience, either domestic or international, is considered prerequisite for applicants at Assistant Manager or Manager level. Language skills are considered advantageous although not essential.

The benefits include an attractive remuneration package, performance related bonus, mortgage subsidy and the opportunity to develop an outstanding career based entirely on merit.

Applicants requiring additional information should contact David Craig or Brian Hamill in strict confidence on 071-287 6285. Alternatively, please forward a brief resumé to our London office quoting reference DC1450.

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City

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The ideal individual will be aged 27-33 and will have worked within a similar banking environment. Liaison with front office operations, preferably with in-depth product knowledge, is essential. Experience in managing a multifunctional team and exposure to the design and implementation of IT Systems would be an advantage.

Remuneration will include an attractive basic salary and other normal banking benefits.

Interested candidates, requiring further information in the strictest confidence, should contact either Robert Walker or David Craig on 071-287 6285 or forward a resumé to our London office quoting reference RW1343.

WALKER HAMILL

Executive Selection

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International Management Group, Mark McCormack's worldwide sports and arts management organisation is looking for a

CORPORATE TAX EXECUTIVE

to join its Corporate Tax Department in Cleveland, Ohio. This position will require excellent international tax experience with a good understanding of European country taxes. Its principal responsibility will be tax planning and research for IMG operations in Europe, however a solid practical accounting background will be essential for other responsibilities: preparation of projections, analysis of financial data, assisting in preparation of tax returns, etc. The successful applicant will be an ACA (or equivalent, CPA in US, etc) with at least four years post qualification experience in a large firm, will have in depth experience of and expertise in European country taxes, and a basic understanding of U.S. corporate taxation, especially relating to U.S. taxation of international transactions.

Please reply in writing with full C.V. to Louise Dier, Pier House, Strand on the Green, Chiswick, London W4 3NN.

US REPORTING MANAGER

CENTRAL LONDON — **c. £45,000 + BENEFITS**

Our client is a substantial quoted UK Plc with a history of rapid growth and global success. An opportunity has arisen within the Group Finance function for a US Reporting Manager to act as the Group's expert in all relevant accounting areas and provide a top quality service to Management and external parties.

It is envisaged that this position would be a logical step for an individual currently working as a member of a US Reporting team or within the profession with extensive US Reporting experience.

This position is crucial to the continuing development of the Group's finance function and, as would be expected, salary and career prospects are excellent.

Specific areas of responsibility include:

- quarterly preparation and presentation of financial statements in line with US GAAP;
- ensuring the correct treatment of all forex positions and currency-related transactions;
- liaison with other finance department heads and provision of expert advice from a US GAAP standpoint;
- playing a role in managing transatlantic investor relations.

The successful applicant will have acquired and be able to demonstrate an outstanding knowledge of US GAAP reporting requirements, especially in accounting for foreign exchange transactions.

Suitable candidates will possess both drive and maturity and be able to demonstrate the ambition to develop both their initial role and their career within the group. It is likely that they will be educated to graduate level and will possess an ACA/ACCA/CPA qualification as a minimum.

For this exciting opportunity experience and personal qualities are more important than age.

Candidates should submit a full curriculum vitae with details of current salary to Jon Boyle ACA at Robert Walters Associates, 25 Bedford Street, London WC2E 9HP. Tel: 071-379 3333 Fax: 071-915 8714

ROBERT WALTERS ASSOCIATES

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sfa

THE SECURITIES AND FUTURES AUTHORITY

INSPECTORS

Up to £30,000 + benefits

SFA plays a pro-active role in regulation of the City. Its 1300 Member Firms cover all of the most important primary and secondary markets in the UK, including securities, futures, options, commodities, OTC products and corporate finance. SFA's membership spans the whole spectrum of Firms from the largest multi-product houses to one-man corporate finance boutiques.

SFA is looking to recruit a number of professionals to its Monitoring Department. Working in a small team, the Inspector's role is to ensure that Member Firms comply with SFA rules by undertaking inspection visits, reviewing their periodic financial returns, assisting with disciplinary investigations and advising on compliance issues.

Applications are invited from individuals who have broad-based, directly relevant industry experience and fall into one of the following categories:

* compliance or internal audit professionals;
* mature individuals with considerable experience in SFA Member Firms;
* qualified Accounting or Legal professionals.

In addition to your professional skills, you must have sound judgement, an enquiring mind and well developed communication skills.

If you recognise the value of financial services regulation and feel you have a contribution to make, then we would like to hear from you.

Successful candidates will receive a salary based upon the relevance of their previous experience and will be eligible for a range of benefits including non-contributory pension scheme, free season ticket, PPP and subsidised sports club membership.

To apply, please write with full career details quoting reference FTT to: Veronica Sherry, Recruitment and Employment Manager, The Securities and Futures Authority Limited, Cottons Centre, Cottons Lane, London SE1 2QB

Closing date for applications: Friday 1st October 1993.

The Audit Commission

Director of Purchasing

Salary negotiable — **London**

The Audit Commission was established in 1983 to oversee the audit of Local Government, and, since 1991, the Health Service. In addition to ensuring the audit of some £83 billion of public expenditure, its mission is to promote improvements in the management and delivery of services through research studies and advisory services. Audit duties are discharged mainly through the Commission's own District Audit Service (DAS), but some, currently 30%, of the workload is contracted out to private firms.

Following a recent review of its strategy and organisation, the Commission is now implementing a separation of its purchaser role in commissioning audits from its provider role through the DAS. Both of these are separate from the management of special studies and the provision of other support services. An exceptional individual is now sought to join the Commission's reorganised Management Board..

THE APPOINTMENT

- Specify the audit requirements for each local and health authority
- Appoint auditors and maintain/develop the quality control process to assess performance
- Produce overview reports on key financial and management issues arising from audits.
- Strive continuously to improve these processes to keep the Commission at the leading edge of public sector auditing

THE REQUIREMENTS

- Qualified accountant with extensive audit experience, preferably in the public sector.
- Excellent technical knowledge.
- Team-building skills
- A communicator, able to command respect from colleagues and influence senior public sector professionals.

Please apply in writing with a full CV and salary details, quoting reference 5538/B, to Michael Brandon

K/F Associates, Pepys House, 12 Buckingham Street, London WC2N 6DF.

K/F ASSOCIATES

Selection & Search

LLOYD MANAGEMENT

'Fast-Track' Young Accountant or MBA

FINANCIAL PLANNING & BUSINESS ANALYSIS

London area

to £55,000 + car + bonus

A dominant force in its marketplace, our client is a major retail group. The highly regarded group has an impressive growth record and is forecasting continuing expansion.

Part of a small high profile team, the Finance Manager will review and analyse business performance. Working closely with both senior operations and financial management, he or she will identify trends and their implications and determine appropriate action. Responsible for the group's planning process the Finance Manager will be expected to progress rapidly in this dynamic environment.

Likely to be aged around 30, applicants, who should be graduate qualified accountants or MBAs, must have impressive career records. Analytical experience gained in a blue chip fmcg, retail or strategy consultancy environment would be particularly useful and excellent communication skills are essential.

Please write, enclosing a career/salary history and daytime telephone number, to David Hogg FCA quoting reference H/83/F.

LLOYD MANAGEMENT Selection Consultants 125 High Holborn London WC1V 6QA 071-405 3499

The Top Opportunities Section

appears every Wednesday

For advertising information call:

Clare Peasnell
071 873 4027

Elizabeth Arthur
071 873 3694

FINANCIAL CONTROLLER

WEMBLEY PARK

c.£45,000 + FINANCIAL SECTOR BENEFITS

Already one of the UK's fastest-growing financial services groups, Cannon Lincoln's recent merger with Citibank Life makes this an exciting period of growth and change. We now have over £900 million funds under management, over 2,000 representatives, and our plans for further expansion will continue throughout the decade and beyond.

Reporting to the Finance Director, this new role has been created to head up and facilitate the effective merger of functions including financial and management accounting, investment accounting and strategic planning, and includes significant line-management responsibilities. With the objective of enhancing overall profitability, it will also be key to future growth plans through the provision of financial planning and forecasting.

We are looking for a qualified accountant with substantial experience, ideally gained in financial services. You should be skilled in managing change in a fast-moving commercial environment, and have gained a thorough knowledge of the functions outlined above. A talented manager with exemplary communication skills, you are not likely to be younger than mid-30s.

In addition to a competitive salary you will enjoy an excellent benefits package including a car, mortgage subsidy, non-contributory pension scheme, private healthcare and a management bonus scheme.

To apply please send your CV with a covering letter to Carol Newberry, Senior Personnel Officer, Cannon Lincoln, 1 Olympic Way, Wembley, Middlesex HA9 0NB.

CANNON LINCOLN

FINANCE MANAGER - GERMANY

Nr Hamburg, Germany — **cDM 80-90K + Relocation Package**

Our client is a several hundred million DM turnover division of a leading UK industrial PLC. This acquisitive German based division includes a number of operating companies spread across Europe and North America.

The division is run by a highly successful management team with an integrated product and services structure and clearly defined objectives and acquisition goals.

The position reports to the divisional Finance Director and will involve extensive contact with the management team and operating company controllers.

Working within a divisional head office team, responsibilities include review and analysis of operating company results, performance and budgets, monthly reporting, statutory reporting and assistance on project and acquisition assignments. The emphasis is on the commerical understanding of the operating companies, recommending appropriate action and development of new ideas.

Applicants should be qualified Accountants, aged 25-32 with reasonable fluency in German. Any work experience in Germany would be advantageous and you should have a confident and diplomatic manner with strong commercial awareness. There are excellent career development opportunities within both the division and the group.

For a detailed and confidential discussion, please call GARY BANNISTER on 071 336 7711 or fax 071 336 7722 (evenings/weekends 081 858 0629) or alternatively forward your CV (ref: *GB/GER/54*) to him at the address below

GMS

GOODMAN MASSON SHAW

Financial Search & Selection
GMS Europe, 2 Bath Street, London EC1V 9DX

INTERNAL AUDIT - INTERNATIONAL ROLE

Herts — **£32,000 - £35,000 + car**

Our client is a Fortune 500 company and a world leader in Cable and Satellite Technology with sales exceeding $700 million.

Having achieved extraordinary growth in the UK and with well established business units in Europe, it is necessary to appoint a UK based International Auditor. This is a new appointment reporting to the Director of Internal Audit in the USA.

The role will entail preparing all audit programmes, completing audit procedures and writing reports covering business units and joint ventures in Europe and at other international locations, notably in South East Asia, Australia, and the Middle East. In addition to financial and operational reviews of business units and contract locations there will be a requirement to evaluate the adequacy and reliability of existing international control systems.

Candidates must be graduate ACA's in their late 20's-early 30's with substantial international audit experience, preferably with a US firm. Knowledge of European statutory/VAT regulations, prior experience with contract accounting and a reasonable level of competence in a second European language, preferably French, are required.

An attractive salary, commensurate with experience, car and employment package which includes non-contributory pension, life assurance, private medical cover, and assistance with the cost of relocation, if appropriate, will be agreed with the successful candidate. Career prospects are excellent.

Please fax or send your CV, including details of your current/last salary to David Edwards at the address below:

MKA MANAGEMENT CONSULTING LIMITED
Tectonic Place, Holyport Road
Holyport, Maidenhead, Berks SL6 2YE
Telephone (0628) 798015
Fax (0628) 798138

MKA

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ASSISTANT MANAGER FINANCIAL SERVICES

Bermuda

Good Salary Package
Tax Free

Our client is a Bermuda based financial institution with offices in major financial cities around the world, specialising in offshore activities ranging from Investment Management to Corporate Trust Services. As a result of internal promotion a need has arisen for an experienced Bank Auditor for their Bermuda based Internal Audit department.

The successful candidate will initially head up the Financial Audit section and should be able to rapidly resume a higher level of responsibility within the department.

The position calls for an experienced all-round auditor who has strong inter-personal skills and the commercial acumen necessary to work constructively with senior management of the Bank.

Candidates should be ACA's, trained with a Big 6 firm and possess approximately 8 years' post qualification experience. Currently holding a managerial position in either a Big 6 financial services audit division or an internal audit department of a bank are pre-requisites. Exposure to all facets of banking and systems development are definitely a plus.

*Interested candidates should contact **Gary Johnson** or **Jennifer Ogden** on **071-629 4463** (evenings/weekends **058 283 2801**) or write enclosing a full CV to the address below.*

HARRISON WILLIS
FINANCIAL RECRUITMENT CONSULTANTS
Cardinal House, 39-40 Albemarle St., London W1X 3FD. Tel: 071-629 4463
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Financial Controller

£ Excellent Salary + Car
Croydon - Surrey

A major part of the Kingfisher Group - including Comet, B&Q and Woolworths - Superdrug plc, one of the UK's leading Health & Beauty retailers, has undergone considerable growth through the development of its core business and the integration of related acquisitions. This is set to continue.

Within the Company's Finance team, the emphasis is firmly on hands-on, commercially relevant support with rapid response throughout.

Responsible overall for the key central functions of corporate reporting, business analysis, financial information systems and maintenance of the financial database, the remit will require you to improve upon existing information systems throughout all areas of strategic, management and financial importance. Involved in the Company's business as a whole, you will establish close working relationships with non-financial management and take a leading role in projects where success depends upon the co-ordination of cross-functional activities.

As a graduate and qualified accountant (possibly MBA) and in your early to mid 30s, a successful track record in corporate reporting and financial analysis, gained within a similar, substantial, marketing-orientated organisation is essential, together with excellent technical accounting skills. High commercial awareness, first-class interpersonal skills and a proven ability to motivate and develop other members of your team are prerequisite. Your integrity and tenacious nature will allow you to quickly establish credibility and inspire confidence in others.

For a talented individual with the qualities and depth of experience required, the potential for development within the Group is excellent.

Applications are invited in writing, together with a full CV, to:
Peter Raine,
Personnel Controller,
Superdrug plc.,
Beddington Lane,
Croydon CR0 4TB.

Closing date for applications Friday October 1st

Superdrug

Raglan Property Trust P.L.C.

Financial Controller

Central London

Raglan is a property investment, trading and development company with a full listing on the London Stock Exchange. It was recapitalised in April, 1993 with the intention of pursuing a vigorous expansion programme. In this connection, the company now seeks a financial controller with sufficient drive, initiative and ability to become finance director in due course.

The successful candidate will be a qualified chartered accountant, aged early 30's, and preferably with experience in the property industry as well as with a major accounting firm. Principal responsibilities will be to maintain and develop the group's accounting systems, to prepare half yearly and annual accounts and to provide monthly management information including management accounts and cash flow forecasts.

Please write, enclosing a comprehensive CV and details of current remuneration, to the Company Secretary, Raglan Property Trust P.L.C., 17-19 Maddox Street, London W1R 0PD.

NEWCHURCH & COMPANY

Consulting Professional (c.£30,000)

Newchurch & Company is a London based firm of business development advisers offering practical advice and assistance in organisational evolution, strategic development, research, acquisitions and fund raising. The Company has an established reputation for working with senior managers affected by the radical changes taking place in a range of social businesses in both the public and private sectors. We are growing rapidly and are currently seeking two professionals with strong academic credentials and a proven ability to apply pragmatic and innovative solutions. Good numerical and communication skills, both written and verbal, are essential for each post.

Acting as part of a team on consultancy assignments, including the development of existing products. Candidates are likely to be newly qualified ACA with a good first degree, possibly with proven industry experience, you will initially report to a director or project manager. The post offers an excellent opportunity to build a career in consultancy, with the prospect of handling your own assignments within a year. Candidates must be able to demonstrate financial modelling skills.

Interviews to be held 13th and 14th October at our offices.

Applications with a full c.v. by Friday 1st October 1993 to:

Richard Langford, Director, Newchurch & Company Ltd, 12 Charterhouse Square, London EC1M 6AX

Applications will be dealt with in the strictest confidence.

FINANCE DIRECTOR

Midlands

c.£45 - 50,000 + significant bonus + car + benefits

UK-based division of a multi-billion dollar US consumer products corporation seeks an experienced finance professional to serve as a key member of the UK management team.

Reporting to the Managing Director, the successful candidate will take responsibility for finance, administration, and MIS functions. Financial reporting, cost management, controls, and systems are all significant elements of the job, as is the ability to analyse, interpret, and enhance overall company performance.

Ideal candidate will be a bottom-line oriented, qualified accountant age 35-45 with a proven ability to implement and manage change in a challenging environment. Experience at a senior level is essentiel, as are highly effective communication skills, including the ability to gain credibility across the organisation and to build and motivate a first-class financial team. Previous experience with US multinational firms a significant plus.

Competitive compensation package, including attractive base salary, significant bonus potential based on profits and individual performance, fully expensed car, executive pension scheme, stock options, and the opportunity for career development within a major international corporation.

Please write with full career details and quoting ref. 9898/FT to CURRICULUM 6 passage Lathuile 75018 Paris FRANCE

UK CONTROLLER, COST STRATEGY

EAST ANGLIA - £40-£50K + BONUS + BENEFITS + GENEROUS RELOCATION

Our client is one of Europe's largest service-based companies, with a substantial and highly successful UK division currently turning over £1.4 billion. Their unique market position has been achieved by acquisition, a consistent commitment to quality and a wide portfolio of leading edge products and services.

To maximise their market leading position in the UK, a role has been created for an experienced Finance Professional operating at Senior Management level encompassing seven divisions with a team of 4,000. You will take responsibility for the initiation, development and implementation of cost control throughout the UK arm of the business.

This is a highly visible and influential position and requires the highest level of financial management and systems expertise, coupled with exceptional interpersonal skills. You will be a Qualified Accountant (ACA/ACCA/CIMA) or MBA aged 32-40 with a successful track record of achievement to date, or relevant experience in a large business.

You can expect a stimulating, challenging role with genuine scope for real achievement and advancement in a rapidly changing environment. There is superb potential for career progression and development in the short term.

If you feel confident of your ability to deliver in this demanding environment please telephone, send or fax your CV quoting Ref Number JL3001 by 24th September to

COOPER LOMAZ RECRUITMENT,
ADVISING CONSULTANTS, BAXTER COURT, HIGH BAXTER STREET,
BURY ST EDMUNDS,
SUFFOLK IP33 1ET
TEL: (0284) 701302
(24 HOURS AND WEEKENDS)
FAX (0284) 701306

C O O P E R L O M A Z

APPOINTMENTS ADVERTISING
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Opportunities for highly motivated individuals within a leading global investment bank.

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London based — Excellent package

This leading global investment bank provides a wide range of investment banking services to major companies throughout Europe. Due to a growing transaction flow, the bank is seeking outstanding individuals who have recently qualified as accountants or lawyers - or expect to do so shortly - with leading city firms.

Selected individuals will be involved in financial analysis, product development, marketing and execution of transactions and advisory assignments involving a wide range of financial products. Candidates should expect immediate responsibility with reward and promotion based on merit.

In addition to a recent accounting or legal qualification and a strong degree, candidates should possess a combination of individual flair and ability to function effectively within a multi-disciplinary team. A continental European background or fluency in a second or third language would be an advantage.

For the right person this is an excellent opportunity to develop a career in investment banking within a highly motivated and dynamic team.

In the first instance, please write in complete confidence enclosing a CV. to Donna Bailey at the address below. Please list separately any companies to whom your details should not be sent as applications will be forwarded direct to our client for consideration.

BERNARD HODES
SELECTION

BIRMINGHAM · BRISTOL.
CARDIFF · MANCHESTER

Griffin House, 161 Hammersmith Rd,
London W6 8BS.
(Rec Cons)

APPOINTMENTS WANTED

هكذا من الأصل

The Institute of Chartered Accountants in England and Wales

Results of Professional Examination 2 held in July 1993

List of Successful Candidates

A

Abel S.H. (Pannell Kerr Forster), Leicester
Ackerley T.F. (Garbutt & Elliott), York
Adams J. (Touche Ross & Co.), Crawley
Adams K.J. (Leach Bright), Guildford
Adams S.A. (Grant Thornton), Manchester
Addo J.K. (Landau Morley), Wembley
Adedoyin A. (Pannell Kerr Forster), Norwich
Agace J.J. (Price Waterhouse), London
Aggarwal D.K. (Touche Ross & Co.), Birmingham
Ahmed M. (KPMG Peat Marwick), Bradford
Aird R.W.S. (Coopers & Lybrand), London
Aitken F.J.M. (Coopers & Lybrand), Uxbridge
Aki-Sawyerr D.Y. (Arthur Andersen), London
Alam S. (Critchleys), Oxford
Alcraft N.J. (Coopers & Lybrand), London
Alderson A.D. (Price Waterhouse), Birmingham
Alete C.U. (Price Waterhouse), Newcastle Upon Tyne
Alexander S.M. (Gilberts), St. Albans
Alflatt J.N. (Touche Ross & Co.), London
Alflatt M.R.W. (Ernst & Young), Leicester
Allen G.D. (Hill, Wooldridge & Co), Harrow
Allen T.P. (Moores Rowland), Brighton
Allenby S.M. (Brooking, Knowles & Lawrence), Andover
Allin R.E. (Price, Bailey), Cambridge
Allison N.M. (Ernst & Young), Norwich
Allsebrook D.J. (BDO Binder Hamlyn), Bacup
Alner M.G. (Critchleys), Oxford
Amijee A. (Price Waterhouse), London
Amin S.N. (Armstrong Watson & Co), Leeds
Amlani K. (Coopers & Lybrand), Newcastle Upon Tyne
Anderson C.M. (Coopers & Lybrand), London
Anderson F.H. (Ernst & Young), Cambridge
Anderson F.K. (Duncan & Toplis), Grantham
Anderson G.V.M. (Price Waterhouse), London
Anderson J.J. (Ernst & Young), Cambridge
Anderson N.S. (Coopers & Lybrand), Birmingham
Anderson R. (Littlejohn Frazer), London
Andrew J.C. (KPMG Peat Marwick), Manchester
Andrews J.L. (Stoy Hayward), Nottingham
Andrews J. (Seymour Taylor), High Wycombe
Andrews P.D. (Arthur Andersen), Cambridge
Andrews S.S. (Touche Ross & Co.), Birmingham
Andrews S.J. (Price Waterhouse), Birmingham
Anthony J.C.C. (Nyman Libson Paul), London
Anthony W.G. (KPMG Peat Marwick), Guildford
Anwar R.S. (Coopers & Lybrand), London
Apps R.V. (Price Waterhouse), Hull
Arkley M.E. (Touche Ross & Co.), Bristol
Armitage G. (Price, Bailey), Bishop's Stortford
Arney J.A. (Price Waterhouse), London
Arnold E. (Lyon Pilcher), Southampton
Arnold N.K. (Stoy Hayward), London
Arnott A.M. (KPMG Peat Marwick), Birmingham
Arnott R.J. (Chantrey Vellacott), Northampton
Ashiagbor W. (Ernst & Young), London
Aspinall J.L. (Hacker Young), London
Aston D.J.W. (Weeks Green), Southampton
Aston S.J. (Coopers & Lybrand), London
Atkins J.E.J. (Arthur Andersen), Cambridge
Atkins K.L. (Arthur Andersen), Birmingham
Atkins M.J. (Thickbroom, Coventry), Waltham Cross
Atkinson H.A.C. (Coopers & Lybrand), London
Atkinson P.J. (Arthur Andersen), Birmingham
Attfield J.M.S. (Arthur Andersen), Cambridge
Audin M.I. (Coopers & Lybrand), Birmingham
Auger D. (Arthur Andersen), Reading
Aughterson J.R. (Brooking, Knowles & Lawrence), Basingstoke
Aujla J.S. (Dawes & Co), Birmingham
Aulak D.K. (KPMG Peat Marwick), London
Auld E. (Levy Gee), London
Ausaf S. (Newman & Partners), London
Austin J.P. (Casson Beckman), London
Auton M. (KPMG Peat Marwick), London
Ava P.J. (Price Waterhouse), Manchester
Avraam C.L. (KPMG Peat Marwick), London
Avraam M. (Lovewell Blake), Norwich
Axon P. (Arthur Andersen), Manchester
Aylwin R.T. (Price Waterhouse), Nottingham
Ayres S.G. (KPMG Peat Marwick), Sheffield

B

Babington C.D. (Casson Beckman), London
Bahia S.S. (MacIntyre Hudson), Richmond
Bailey A.J. (Ernst & Young), Birmingham
Bailey S.A. (Grant Thornton), Manchester
Bainbridge M.P. (KPMG Peat Marwick), London
Baines M.I. (Coopers & Lybrand), London
Bairstow A. (Arthur Andersen), Reading
Baish J.M. (Coopers & Lybrand), Reading
Baker E.L. (Spence, Houghton & Co), Taunton
Baker G.T. (Arthur Andersen), London
Baker K.J. (Touche Ross & Co.), London
Baker R.M. (Newman & Partners), London
Balbi D.C. (Touche Ross & Co.), Leeds
Baldwin K. (Price Waterhouse), London
Baldwin S.J. (Coopers & Lybrand), London
Balzan J.M. (KPMG Peat Marwick), Reading
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Banerjee A.O. (Morgan Brown & Spofforth), Loughton
Banks S.J. (Revell Ward), Huddersfield
Banks S.P.M. (Coopers & Lybrand), London
Banks S.C. (Stoy Hayward), London
Bansal T.S. (Leonard Finn & Co), London
Bantick K.M. (MacIntyre Hudson), High Wycombe
Barber F. (Towers Rockall), Northampton
Barber J.M.G. (Gane Jackson Scott), London
Barden A. (KPMG Peat Marwick), Guildford
Bardin C.N. (Latham Crossley & Davis), Chorley
Barham V.C. (Smith & Williamson), London
Barker N.J. (Brooking, Knowles & Lawrence), Basingstoke
Barker P.R. (Touche Ross & Co.), London
Barker R. (Sylvester Groves & Co.), Bath
Barker S.J. (Wagstaffs), Stevenage
Barker S.G. (KPMG Peat Marwick), London
Barker S.P. (Coopers & Lybrand), Leeds
Barnard G.N. (Nash Broad Wesson), Stevenage
Barnes R.E. (Price Waterhouse), Leeds
Barnes T.J. (Price Waterhouse), London
Barnes-Austin J.D. (Price Waterhouse), London
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Barrett R.A.H. (Coopers & Lybrand), London
Barron A.M. (Stoy Hayward), London
Barrows L.A. (Landau Morley), Wembley
Barry P.A. (Arthur Andersen), London
Barry T.M. (KPMG Peat Marwick), London
Bartlett S.G. (Price Waterhouse), Southampton
Bartram L. (Pearson May & Co), Bath
Barwell J.F. (Ernst & Young), Luton
Basra H. (Weeks Green), Southampton
Basra S.S. (Casson Beckman), London
Bass M.J. (Pannell Kerr Forster), Leicester
Bassil K.E. (KPMG Peat Marwick), London
Batchelor H.C. (McBrides), Sidcup
Battin D.I. (BDO Binder Hamlyn), Birmingham
Bavin C.N. (KPMG Peat Marwick), Nottingham
Baxter S.J.R. (KPMG Peat Marwick), Reading
Bayley D. (Pannell Kerr Forster), Leicester
Beale R.A. (Morris Owen), Swindon
Beard S.J. (Arthur Andersen), Leeds
Beardsworth L.J. (Cooper-Parry, Watson, Sowter & Co), Derby
Beardwell E.A.F. (Arthur Andersen), London
Bearne L.A. (Ernst & Young), London
Beattie K. (Cooper Lancaster Brewers), London
Beaumont-Kerridge C.J. (Moores Rowland), Hertford
Beckett S.M. (Neville Russell), Stockport
Bedford D.M. (Touche Ross & Co.), Bristol
Bee S. (Silver Altman), London
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Beeston G.A. (Price Waterhouse), London
Beeston J.M. (Pannell Kerr Forster), Guildford
Beetham H.V. (Touche Ross & Co.), Birmingham
Behan R.S. (Jackson Fox), Jersey
Bell D.S. (Arthur Andersen), London
Bellenger J.S. (Stoy Hayward), London
Benedetti S. (KPMG Peat Marwick), London
Bennett A.E. (Pannell Kerr Forster), London
Bennett K.J. (Price Waterhouse), Windsor
Bentley C.A. (Pole Arnold), Leicester
Benveniste J.E. (Coopers & Lybrand), London
Beres H.J. (KPMG Peat Marwick), Sheffield
Bergin J.P. (MacIntyre & Co), London
Bettles L.M. (KPMG Peat Marwick), Sheffield
Bewers H. (KPMG Peat Marwick), Southampton
Bhatti R.A. (Ingle Shamash & Co), London
Bhogal D.S. (KPMG Peat Marwick), Birmingham
Bhogal P. (Baker Tilly), London
Bickerstaff M. (Coopers & Lybrand), London
Bickford D.P. (Critchleys), Oxford
Biddiscombe S. (Coopers & Lybrand), Cardiff
Biggs J.M.A. (Coopers & Lybrand), London
Billings J.A. (Price Waterhouse), Leicester
Birch R.D.M. (Ernst & Young), London
Birch S.C. (Coopers & Lybrand), London
Bird D.J. (Ernst & Young), London
Birnie A.J. (Coopers & Lybrand), Bristol
Bishop A.J. (Rickard Keen & Co), Southend-On-Sea
Bishop N.M. (Coopers & Lybrand), Manchester
Bishton R.J. (KPMG Peat Marwick), London
Blake S.L. (KPMG Peat Marwick), Brighton
Blakemore N.J. (KPMG Peat Marwick), Milton Keynes
Blakey M.V. (Price Waterhouse), Newcastle Upon Tyne
Blanch S.H. (Price Waterhouse), Bristol
Blanshard M. (Price Waterhouse), Newcastle Upon Tyne
Blathwayt A.T. (Price Waterhouse), Leeds
Blazeby J.P. (Coopers & Lybrand), Cambridge
Blundell C.J. (Bird Luckin), Chelmsford
Boakes S.A. (Stoy Hayward), London
Boardman J.P. (BDO Binder Hamlyn), Manchester
Bosse C.J. (KPMG Peat Marwick), Truro
Boddington C.E. (BDO Binder Hamlyn), Nottingham
Boland D.A. (Sorsky Defries), London
Bond D.J. (Brebner, Allen & Trapp), Fleet
Bonser T.A. (KPMG Peat Marwick), London
Borbas M.A. (Ernst & Young), Luton
Boss J.R. (Touche Ross & Co.), London
Boswell J.C. (Ernst & Young), Southampton
Boteler A.N. (Ernst & Young), Exeter
Bottom S.A. (Hurst & Company), Stockport
Bottomley T.A.M. (Coopers & Lybrand), London
Boucher R.R. (KPMG Peat Marwick), Nottingham
Boulton S.L. (Ernst & Young), Luton
Bourne J.M.W. (KPMG Peat Marwick), Manchester
Bousfield C.J. (Coopers & Lybrand), London
Bouzayen D. (Arthur Andersen), London
Bowden A.G. (Touche Ross & Co.), Manchester
Bowden J.A. (Touche Ross & Co.), Manchester
Bowyer S. (Ernst & Young), London
Boyd M.J. (Touche Ross & Co.), London
Boyle A.I. (Price Waterhouse), Leeds
Boys A.M.B.P. (KPMG Peat Marwick), London
Bradford J.N. (Warley & Warley), Kingston-Upon-Thames
Bradshaw A.J. (Touche Ross & Co.), Cambridge
Brady P. (Mitchell Charlesworth), Liverpool
Brake T.J. (Monson Stoneham), Swindon
Bramley S.G. (Smith & Williamson), London
Brand D. (Clark Whitehill), London
Branson A. (McKenzie & Company), Oxted
Braund N.J.C. (Cane David), Surbiton
Brazier A.L. (Cape & Dalgleish), London
Breach S.D. (Ernst & Young), Reading
Breakspear A.P. (Ernst & Young), London
Brent R.J. (KPMG Peat Marwick), London
Briddock P.T. (Coopers & Lybrand), Sheffield
Brierley J. (Pick R.A. & Co), London
Briggs A. (Kanas & Partners), Manchester
Briggs G.D. (Kingston Smith), St. Albans
Brimble E.J. (Price Waterhouse), St. Albans
Brimmell P.J. (Hillier Hopkins), Watford
Bristow A.W. (Coopers & Lybrand), London
Brittain R.A. (KPMG Peat Marwick), London
Broadbent D.E.S. (Coopers & Lybrand), Leeds
Broadhead T.P. (Price Waterhouse), London
Broker A.R. (KPMG Peat Marwick), Guildford
Brook J.H. (Clough & Company), Keighley
Brooks C.P. (KPMG Peat Marwick), Preston
Broom D.T. (Clark Whitehill), Cheltenham
Broome D.J.D. (Heathcote & Coleman), Birmingham
Broster P.C.R. (Coopers & Lybrand), Portsmouth
Brown A.D. (Forrester Boyd), Grimsby
Brown A.D.P. (Coopers & Lybrand), London
Brown A.W. (Touche Ross & Co.), Birmingham
Brown C.M. (Freeman Baker), St. Albans
Brown D.A. (Critchleys), Oxford
Brown G.K. (BDO Binder Hamlyn), Manchester
Brown I.M. (Coopers & Lybrand), Leeds
Brown J.J.C. (Ernst & Young), London
Brown K.R. (Price Waterhouse), London
Brown P.A. (Ernst & Young), Leicester
Brown S.T. (Littlejohn Frazer), London
Brown S.J. (Coopers & Lybrand), Cambridge
Brown S.D.R. (Arthur Andersen), Manchester
Browning A.J. (Grant Thornton), Bedford
Brownlow Y. (Hollingdales), Bristol
Broyden N.J. (Ernst & Young), London
Bryant L.N. (Ernst & Young), Exeter
Buckingham D. (Coopers & Lybrand), London
Buckingham S.M.C. (Price Waterhouse), London
Buckley K.L. (Coopers & Lybrand), Manchester
Budd H.L. (Scott, Roberts, Taylor & Co), Hyde
Bull C.J. (Coopers & Lybrand), Maidstone
Bullivant I.M. (Ridgway-Alexander), Shrewsbury
Bullock A.D.M. (KPMG Peat Marwick), Chelmsford
Bungay R.E. (Touche Ross & Co.), Bracknell
Bunton I. (Smailes, Goldie & Co), Hull
Burgess A.L. (Coopers & Lybrand), Bristol
Burnett R.D. (Coopers & Lybrand), London
Burridge M.S. (Stoy Hayward), London
Burrough R.J.H. (Stoy Hayward), London
Burstall V.M. (Ernst & Young), Hull
Burt S.D. (KPMG Peat Marwick), Southampton
Burton A.M. (Pannell Kerr Forster), Douglas
Burton A.S. (Stoy Hayward), Nottingham
Burton D.C. (Touche Ross & Co.), Manchester
Butcher D. (Touche Ross & Co.), Leeds
Butler C.C. (Price Waterhouse), London
Butler J.M. (Kidsons Impey), London
Buxton J.C.F. (Coopers & Lybrand), London
Bye A.J. (KPMG Peat Marwick), Ipswich
Bye C.J.C. (Price Waterhouse), Newcastle Upon Tyne
Byers A.B. (KPMG Peat Marwick), Douglas
Byford A.P. (Ernst & Young), Southampton

C

Cabello A.M. (Wilson, de Zouche & Mackenzie), Liverpool
Cable M.J. (Nevill, Hovey & Co), Plymouth
Cain H.L. (Parker Gradwell & Co), Hyde
Cairns H.M. (Clark Whitehill), Reading
Cairns K.J. (KPMG Peat Marwick), Leicester
Cairns S.T. (KPMG Peat Marwick), London
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Callow S.J. (Coopers & Lybrand), Cardiff
Calver S.J. (KPMG Peat Marwick), Ipswich
Campbell P.D. (Fraser & Russell), Hertford
Campbell R.M. (KPMG Peat Marwick), London
Campbell S.J. (Kidsons Impey), London
Cane C.K.B. (KPMG Peat Marwick), Birmingham
Cant G.R. (Price Waterhouse), Southampton
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Carolan B.M. (Touche Ross & Co.), London
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Carpenter T.M. (Morley & Scott), Winchester
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Catterall P. (Price Waterhouse), London
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Cheung C.W.S. (Moore Stephens), London
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Clark C.M. (Coopers & Lybrand), Reading
Clark D.S. (Coopers & Lybrand), Croydon
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Clarke P.C. (Wilson Green), London
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Coombs M. (Price Waterhouse), Birmingham
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Cope-Thompson S.D. (Arthur Andersen), London
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Cowell J. (Touche Ross & Co.), Leeds
Cowie E. (Ernst & Young), London
Cowley K.F. (KPMG Peat Marwick), London
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Cox S.L. (Price Waterhouse), London
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Craven A.J. (KPMG Peat Marwick), London
Crawcour S.A. (Touche Ross & Co.), London
Crawford G. (Watling & Hirst), Chichester
Creamer J.A. (Hereward Philips), London
Crean P.L. (KPMG Peat Marwick), Reading
Crisop R.J. (Chipchase, Manners & Co), Middlesbrough
Croft A.B. (Haworth Moore), Blackpool
Croft M. (Ernst & Young), Liverpool
Cronshaw L.A. (Baker Tilly), London
Crowhurst M.R. (Touche Ross & Co.), London
Crump H.F. (Price Waterhouse), Nottingham
Cruse N.A. (Fiander Tovell & Co), Southampton
Cruxton S. (Ernst & Young), Birmingham
Crymble D. (Coopers & Lybrand), Maidstone
Cullingham J.M. (Jacob, Cavenagh & Skeet), Sutton
Cullum D.A. (Lovewell Blake), Norwich
Culverhouse N.J. (Arthur Andersen), London
Cummings G. (KPMG Peat Marwick), London
Cunningham D.W. (Ernst & Young), Southampton
Cunningham S. (Robson Rhodes), London
Curry J. (Ernst & Young), London
Curry M.A. (Ernst & Young), London
Curry M. (Coopers & Lybrand), London
Curtis I. (Coopers & Lybrand), London
Cuthill C.N. (KPMG Peat Marwick), Edinburgh

D

Dabson S.J. (Keens Shay Keens), Luton
Dadressan A. (KPMG Peat Marwick), London
Dahya S. (Griffin Stone, Moscrop & Co.), London
Dallas C.A. (Donald Bates), Stoke-On-Trent
Daly J.D.A. (Newman & Partners), London
Daniel R.W. (Robson Rhodes), London
Daniels D.T.J. (Roddis Taylor Robinson), Sheffield
Daniels N. (KPMG Peat Marwick), Bristol
Daruwalla A. (Bennett Nash, Woolf & Co), London
Darwin R.J. (Coopers & Lybrand), London
Dash B. (Arthur Andersen), London
Davey G.W. (Seymour Taylor), High Wycombe
Davidson A.R. (Bishop Fleming), Exeter
Davidson C.J. (Price Waterhouse), London
Davidson M.L. (Price Waterhouse), London
Davidson P.M. (Touche Ross & Co.), Southampton
Davidson-Wright M.J. (Arthur Andersen), London
Davies A.G.P. (Price Waterhouse), London
Davies C.J. (KPMG Peat Marwick), Exeter
Davies C.E. (Kidsons Impey), Chester
Davies G.R. (Ernst & Young), Luton
Davies J.R. (Price Waterhouse), Southampton
Davies M.W. (Streets & Co), Lincoln
Davies M.S. (Arthur Andersen), London
Davies N.J. (Keens Shay Keens), Luton
Davies R.J. (Coopers & Lybrand), Cardiff
Davies S.M. (Ensors), Bury St.Edmunds
Davis A.J.C. (Ernst & Young), London
Dawes P. (Price Waterhouse), Newcastle Upon Tyne
Dawkins I.C. (Stoy Hayward), London
Dawson A.H. (Ernst & Young), Norwich
Dawson J.E. (Price Waterhouse), London
Day C.A. (Ernst & Young), Manchester
Day S.C. (Ernst & Young), London
De Cruz A. (Touche Ross & Co.), London
De Marco R.P. (James & Cowper), Reading
De Silva D.M. (KPMG Peat Marwick), London
Dearing A.S. (Coopers & Lybrand), Reading
Dedman A.L. (Grant Thornton), Witney
Deeming P.J. (Arthur Andersen), London
Dempsey I.M. (Price Waterhouse), Manchester
Dence Z.C. (Touche Ross & Co.), Cambridge
Dent C.J. (Clement Keys), Birmingham
Derrett R.J. (Atkey Goodman), Plymouth
Devereux C. (Kidsons Impey), Hereford
Devereux G.W. (Arthur Andersen), London
Devlin C.L. (Touche Ross & Co.), Cambridge
Devoy S.M. (Jennings Johnson), Sunderland
Dewhirst S.E. (Murray Smith & Co), Winsford
Dhami G.S. (KPMG Peat Marwick), Birmingham
Dhillon N.S. (Arthur Andersen), London
Dhir S.K. (KPMG Peat Marwick), London
Dickinson J. (Stoy Hayward), London
Dickinson P.M. (Ernst & Young), Hull
Dickinson R.M. (Spicer & Oppenheim), Cambridge
Dill A.J. (Coopers & Lybrand), London
Dill A. (Coopers & Lybrand), Gloucester
Diplock J. (Neville Russell), London
Dixon I.R. (KPMG Peat Marwick), Hull
Dixon L.H. (Gibbons & Company), Workington
Dixon-Clarke P.J. (Touche Ross & Co.), London
Dobson S.M. (KPMG Peat Marwick), Preston
Dodd J.J.R. (Price Waterhouse), Manchester
Domaradzki A.M. (Ernst & Young), London
Donagher K.D. (KPMG Peat Marwick), Ipswich
Donald S.G. (Neville Russell), Sutton
Donaldson J.A. (Price Waterhouse), Southampton
Donnachie M.T. (Coopers & Lybrand), Manchester
Donnelly T.A. (BDO Binder Hamlyn), Newcastle Upon Tyne
Dooley C.R.G. (Arthur Andersen), London
Dooley R. (Clark Whitehill), Cheltenham
Dover G.V. (Price Waterhouse), Southampton
Downey R.S. (KPMG Peat Marwick), Liverpool
Doyle B.S.K. (KPMG Peat Marwick), Leeds
Drake L.J. (Touche Ross & Co.), Leicester
Dray S.J. (Touche Ross & Co.), London
Drury M.E. (Kidsons Impey), Spalding
D'Souza D. (Arthur Andersen), London
Duce R.A. (Touche Ross & Co.), Leeds
Duke J.A. (Wilson Green), London
Dulay S.K. (Touche Ross & Co.), London
Duley A. (Fraser & Russell), Redhill
Dumbell P.N. (KPMG Peat Marwick), Liverpool
Dunbar R.A.I. (Ernst & Young), Hull
Dunbar S.J. (Latham Crossley & Davis), Chorley
Duncan J.L. (Kidsons Impey), Norwich
Dunhill R.A. (Coopers & Lybrand), Southampton
Dunley C.J.S. (KPMG Peat Marwick), London
Dunne C.E. (Arthur Andersen), Birmingham
Dunnett J. (Neville Russell), London
Dunstan R.M. (Ernst & Young), Cardiff
Dutson P.S. (Arthur Andersen), London
Dyer J.S. (Grant Thornton), Southampton
Dykes S.M. (Price Waterhouse), Birmingham
Dymiotis S. (Coopers & Lybrand), London
Dymott J.G. (Auckland Goddard Hampson & Swain), Windsor

E

Eadie D.Y. (Arthur Andersen), Manchester
Eager A. (Touche Ross & Co.), Leicester
Eaglestone A.A. (KPMG Peat Marwick), Bristol
Earl R.M. (Price Waterhouse), Newcastle Upon Tyne
Earle S.F. (Alliotts), London
Eaton D.J. (Ernst & Young), London
Eaton M.S. (Coopers & Lybrand), Newcastle Upon Tyne
Ebner M.B. (Stoy Hayward), London
Ebons K.M. (Solomon Hare), Chippenham
Edmeades M.J. (Touche Ross & Co.), Leeds
Edmonds K.H. (Hillier Hopkins), Hemel Hempstead
Edmunds D.R. (Touche Ross & Co.), London
Edwards G.J. (Pannell Kerr Forster), Liverpool
Edwards L. (Ventham M.J. & Co), London
Elder A.G. (Ernst & Young), London
Elder J.S. (Coopers & Lybrand), London
Elliott J.P. (Robson Rhodes), London
Ellis J.A. (Price Waterhouse), Liverpool
Ellisdon M.C. (Arthur Andersen), London
Ellwood F.E. (Ernst & Young), London
Ellwood K.P. (Price Waterhouse), London
Elsom N.L. (Ernst & Young), London
Elvey G.C. (Smith & Williamson), London
Emmens K.L. (Coopers & Lybrand), Cambridge
Emmerson R.J. (Read, Milburn & Co), North Shields
Emmins M.A. (Ernst & Young), London
Endeacott J.C. (Price Waterhouse), Leeds
Endler E.C. (Morgan Brown & Spofforth), London
English D.J. (Spain Brothers), Tunbridge Wells
Enskat M.K. (Price Waterhouse), London
Esher C.E. (Price Waterhouse), Redhill
Espie J.L. (KPMG Peat Marwick), Birmingham
Etchells K.T. (KPMG Peat Marwick), Stoke-On-Trent
Etherington P.M.D. (Grant Thornton), High Wycombe
Evans D. (Robson Rhodes), Leeds
Evans M.H. (Robson Taylor), Bristol
Eveny K.A. (Ventham M.J. & Co), Rochford
Evgeniou E. (Price Waterhouse), London
Ewing J.A.C. (Price Waterhouse), London

F

Fabb D.A. (Ernst & Young), Leicester
Fabre L.R. (Coopers & Lybrand), London
Facer I.J. (Ernst & Young), Birmingham
Fairclough G.K. (Coopers & Lybrand), London
Faranda Bellofiglio N. (Arthur Andersen), Cambridge
Farr J. (BDO Binder Hamlyn), London
Farrant R.S. (Price Waterhouse), London

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McKay A.J.H. (Arthur Andersen), London
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McKenna L. (Ernst & Young), London
McKenzie C.J. (Robson Rhodes), Manchester
McKenzie J. (Coopers & Lybrand), Bristol
Mackfall N.S. (Gibson Wilkinson), Barnsley
Maclachlan R.J. (Coopers & Lybrand), Manchester
McLaughlin S.P. (Coopers & Lybrand), London
Macleod I.M. (Touche Ross & Co.), London
McManus J.R. (Touche Ross & Co.), Manchester
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McMonagle G.F. (Donald Reid & Co), Maidenhead
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McQuater A. (Hawsons), Northampton
McWilliam L. (Coopers & Lybrand), Liverpool
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Markham D.P. (Price Waterhouse), Nottingham
Markham J.A. (Hamilton-Burke Dufau), Liverpool
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Michaelouidis N.S. (Levy Gee), London
Middleton J.D. (Touche Ross & Co.), London
Middleton P.A.C. (KPMG Peat Marwick), Cambridge
Middleton S.J. (KPMG Peat Marwick), Birmingham
Millis S.K. (Pearson May & Co), Bath
Milburn R.P. (Price Waterhouse), London
Milburn W.E. (Wickham, Hunt & Co), Hitchin
Millar J. (Cooper Lancaster Brewers), London
Millar J.R. (Pannell Kerr Forster), Nottingham
Millar K.T. (Baker Tilly), Sherborne
Millar S.S. (Arthur Andersen), Leeds
Millard A.D. (Clement Keys), Birmingham
Milledge P.J. (Touche Ross & Co.), London
Miller J.D. (Reads & Co), London
Mills B.J. (Ernst & Young), Ipswich
Mills D. (Touche Ross & Co.), Crawley
Mills D. (Langdowns), Andover
Mills J.E. (Arthur Andersen), Birmingham
Minas A. (Ernst & Young), Birmingham
Minter C.J. (Grant Thornton), London
Mirfin S.D. (Wingfield Slater), Sheffield
Mitchell A.B. (Coulson & Co), Scarborough
Mitchell B.A. (Grant Thornton), Cheltenham
Mitchell K.A. (Clemence Hoar Cummings), Romford
Mithani P.C. (Ernst & Young), Leicester
Modi A. (KPMG Peat Marwick), Leicester
Modle A.C. (Bowker Orford & Co), London
Moh K.K.T. (Barnes Roffe), Uxbridge
Mokhtar M. (Ernst & Young), London
Mole C.D. (Ernst & Young), Reading
Money D.E. (KPMG Peat Marwick), Brighton
Monk S.E. (Coopers & Lybrand), London
Monk S.J. (Kidsons Impey), Horsham
Montoya R.G. (Stoy Hayward), London
Moon L. (Arthur Andersen), London
Moore A.J. (King & Taylor), Gravesend
Moore J.D. (Arthur Andersen), London
Moore J. (Coopers & Lybrand), Liverpool
Moore J.P. (Levy Gee), London
Moran K.L. (Morley & Scott), London
Morgan K.E. (Price Waterhouse), Nottingham
Moriarty S.T. (BDO Binder Hamlyn), Bacup
Morris D.R. (KPMG Peat Marwick), London
Morris G.P. (KPMG Peat Marwick), London
Morris J.R. (Ernst & Young), Reading
Morris P.J. (Coopers & Lybrand), Manchester
Morris S.J. (Coopers & Lybrand), Manchester
Morton A.N. (Coopers & Lybrand), Nottingham
Morton J. (Shipley Blackburn), London
Morton K.B. (KPMG Peat Marwick), Huddersfield
Morton R.S. (Coopers & Lybrand), Bristol
Morton S.D. (Morgan Brown & Spofforth), Loughton
Moseley R. (Ernst & Young), London
Moss D.J.C. (Ernst & Young), London
Moss M.H. (Coopers & Lybrand), Manchester
Motram W.J.C. (Whittingham, Riddell & Co), Shrewsbury
Mousley J.R. (BDO Binder Hamlyn), Altrincham
Mukhawala V. (Clark Whitehill), London
Mullard C.S. (Jacob, Cavenagh & Skeet), Sutton
Mullen I.N. (Price Waterhouse), Manchester
Mullens H.A. (Grant Thornton), Bedford
Mullens S.B. (Cansdale & Co), Little Chalfont
Mulley S. (KPMG Peat Marwick), Leeds
Mullick A. (KPMG Peat Marwick), London
Mulligan M.M. (Grant Thornton), Cheltenham
Murphy B.P. (Rothman Pantall & Co.), London
Murray A.G. (KPMG Peat Marwick), Cambridge
Murray P.A. (Price Waterhouse), London
Murrell C.J. (Bird Luckin), Brentwood
Mustafa E. (Ernst & Young), London
Myers J.R. (Coopers & Lybrand), London
Mycroscough T.A. (Cooper Parry Prior & Palmer), Derby

N

Nair S. (Touche Ross & Co.), London
Nalder J.B. (Price Waterhouse), Bristol
Nanda D.K. (Ernst & Young), Birmingham
Nash J. (Littlejohn Frazer), London
Needs A.H. (KPMG Peat Marwick), London
Neal J.C. (Touche Ross & Co.), Leeds
Neate J.C. (Ernst & Young), Bristol
Neaves M. (Ernst & Young), London
Needs J.C. (Jackson, Holledge & White), Bristol
Neighbours M.E. (Coopers & Lybrand), Reading
Neill A.D. (Price Waterhouse), London
Neill A.D.G. (Newby Castleman), Leicester
Neville M.J. (Price Waterhouse), Leeds
Newbold M.F. (Clay Ratnage Strevens & Hills), Wickford
Newman G.R. (Coopers & Lybrand), London
Newman J.R. (Touche Ross & Co.), Dartford
Newman M. (McCabe Ford & Williams), Ashford
Newman S.A. (Pannell Kerr Forster), Birmingham
Newport A. (Newland, Mallett, Garner, Woodbury & Co), Bristol
Newton J.A. (Humphrey & Co), Eastbourne
Newton R.S. (KPMG Peat Marwick), London
Newton T.M. (KPMG Peat Marwick), London
Ng A.C.V. (Saffery Champness), London
Ng E.C. (Ernst & Young), London
Ng Man Chuen J. (Rooke Holt), London
Ng P.S. (Crane & Partners), Bromley
Nicholl K.M. (Touche Ross & Co.), Birmingham
Nicholson J.A. (Moore Thompson), Spalding
Nicholson S.E. (Price Waterhouse), Bristol
Nicoll S.D. (KPMG Peat Marwick), Stoke-On-Trent
Nield A.N. (Price Waterhouse), Leeds
Nighoskar S.S. (Honey Barrett & Co), Eastbourne
Nimmo H.J. (Macnair Mason), London
Nisbett Evans A. (Ernst & Young), Reading
Njoroge J.T. (Ernst & Young), London
Nolan S.V. (Saffery Champness), London
Norman I.S. (Price Waterhouse), Bristol
Norman P. (Ernst & Young), Jersey
Norris A.M. (Coopers & Lybrand), London
Norris S.A. (Arthur Andersen), Manchester
Norwood F.C. (Ernst & Young), London
Notman G.D. (Coopers & Lybrand), Newcastle Upon Tyne
Novakovic N. (BDO Binder Hamlyn), London
Nunn C.S. (Arthur Andersen), Reading
Nutter R.N. (Beavis Walker), London

O

Oates D.R. (Price Waterhouse), London
O'Connor L.C.M. (Moore Stephens), Dudley
O'Donoghue P.S.J. (Touche Ross & Co.), London
Odonoghue S.W. (KPMG Peat Marwick), London
O'Flaherty P.J. (Ernst & Young), London
O'Keefe M. (Price Waterhouse), London
Oldfield J. (KPMG Peat Marwick), Bradford
Oliver C. (Arthur Andersen), Cambridge
Oliver M.J. (KPMG Peat Marwick), Milton Keynes
Oliver P.L. (MacIntyre & Co), London
O'Loughlin F.M. (Smith Partnership), Manchester
O'Loughlin J. (John Fairhurst & Co.), Wigan
O'Neill D.J. (KPMG Peat Marwick), London
O'Neill M.R. (Morton Thornton), St. Albans
Ong C.W.A. (Fisher H.W. & Company), London
Ong J.K.Y. (MacIntyre Hudson), London
Oon P.J.C. (Coopers & Lybrand), Cambridge
Opumnaji A. (Touche Ross & Co.), London
O'Reilly T.C. (Stoy Hayward), London
O'Rourke P.A. (Altman, Blane & Co), Edgware
Osborne A.E. (Bentley Jennison & Co), Telford
Osborne D.L. (Price Waterhouse), Southampton
Osgathorpe K.M. (Price Waterhouse), London
Osmond R.L. (Menzies), Walton-On-Thames
O'Sullivan E. (Hereward Phillips), London
O'Sullivan P.M. (KPMG Peat Marwick), London
Owen A.D.W. (Price Waterhouse), St. Albans
Owen C.M. (Buzzacott & Co), London
Owen D.M. (Ollis & Co.), Leamington Spa
Owen E.J. (Blythens), Nottingham
Owen P.E. (Pannell Kerr Forster), Liverpool
Ozoran P. (Weston Kay), London

P

Pace C.D. (Coopers & Lybrand), London
Pactat M.J. (Leach Bright), Guildford
Page A.J. (KPMG Peat Marwick), Brighton
Palmer J.H. (BDO Binder Hamlyn), Manchester
Palmer J.R. (Littlejohn Frazer), London
Pang A. (Coopers & Lybrand), London
Pankhurst D.T.R. (Coopers & Lybrand), Portsmouth
Papadopoulos D.T. (Richard Anthony & Co), London
Papadopoulos L. (Price Waterhouse), London
Parden M.B. (Stoy Hayward), London
Pare G.D. (Price Waterhouse), Leeds
Parker R.G. (Brebner, Allen & Trapp), London
Parker S. (KPMG Peat Marwick), Basingstoke
Parker S.J.C. (Touche Ross & Co.), Leicester
Parker T.L. (Coopers & Lybrand), London
Parker T.J. (KPMG Peat Marwick), London
Parkinson A.N. (Price Waterhouse), Leicester
Parmar M.K. (Price Waterhouse), Windsor
Parratt J.A. (Rawlinson & Hunter), London
Parsons A.D. (KPMG Peat Marwick), Southampton
Parsons S.L. (Ernst & Young), Manchester
Parvani J. (Coopers & Lybrand), London
Pashoulis M. (Landau Morley), Wembley
Patel A. (KPMG Peat Marwick), Chelmsford
Patel A. (Coopers & Lybrand), London
Patel C.N. (KPMG Peat Marwick), Preston
Patel H.A. (Gerald Edelman), London
Patel J.N. (Price Waterhouse), St. Albans
Patel N. (Grant Thornton), Birmingham
Patel P. (Ernst & Young), London
Patel S. (Coopers & Lybrand), Leeds
Patel U. (Beechams), London
Patel V. (Coopers & Lybrand), London
Pattern A.L. (Ernst & Young), Hull
Patterson R.E.W. (Arthur Andersen), London
Payling T.S. (Pannell Kerr Forster), Great Yarmouth
Payne J.S. (Coopers & Lybrand), Bristol
Payne S.M. (Moore Stephens), London
Peace N.A. (KPMG Peat Marwick), Birmingham
Peach D.J. (Fisher H.W. & Company), London
Pearson N.D. (Barber, Harrison & Platt), Sheffield
Pearson L.L. (KPMG Peat Marwick), St. Albans
Pearson T.J. (Walker R. Tait & Co), Newcastle Upon Tyne
Peden A. (Hillier Hopkins), Watford
Pedraz N.O. (Letchfords), Harrow
Peers J. (Pannell Kerr Forster), Liverpool
Pell D.J. (Coopers & Lybrand), Plymouth
Penketh J.H. (Price Waterhouse), Nottingham
Penkul A.S. (KPMG Peat Marwick), London
Pepper A.J. (KPMG Peat Marwick), Brighton
Pereira V.A. (Newman & Partners), London
Periapanayagam R. (Coopers & Lybrand), Uxbridge
Perkins C.L. (Coopers & Lybrand), Guernsey
Perrens C.J. (Pannell Kerr Forster), Birmingham
Perring A.W. (Smith & Williamson), London
Perry C.A. (Price Waterhouse), Redhill
Perry R.G. (Ernst & Young), London
Pestell P.D. (Larking Gowen), Norwich
Peters K.E. (KPMG Peat Marwick), Leeds
Phelps D.R. (Price Waterhouse), Birmingham
Phillips E.M. (Coopers & Lybrand), Swansea
Phillips S.M. (Alan Pace & Co.), Jersey
Pickard J. (Touche Ross & Co.), Cardiff
Pickett M.J. (Touche Ross & Co.), Dartford
Pickin C.W. (Ernst & Young), London
Pierson L.J. (Moores Rowland), Sevenoaks
Pinching S.B. (Ernst & Young), Norwich
Pinnell A.C. (KPMG Peat Marwick), Cardiff
Pitcher J.R. (Bishop Fleming), Torquay
Pitney H.S. (Arthur Andersen), Bristol
Platt N.H. (Cooper Parry Prior & Palmer), Derby
Plaskitt S.C. (Torgersens), Sunderland
Plastow M.J. (Melville Howell Rose), Aylesbury
Plowright M.J. (KPMG Peat Marwick), Manchester
Plummer J.A. (Harris, Walters), Andover
Plumridge G.S. (Fraser & Russell), Hertford
Plumtree N. (Coopers & Lybrand), London
Pong J.M.H. (Price Waterhouse), London
Pooling C.S. (Ernst & Young), Reading
Porter S.L. (Fisher H.W. & Company), London
Potter I. (KPMG Peat Marwick), Leeds
Potter I.S. (Coopers & Lybrand), London
Potter J.E. (Robson Laidler), Newcastle Upon Tyne
Potter S.J. (Auckland Goddard Hampson & Swain), Windsor
Potter T.J. (Price Waterhouse), Manchester
Potts K. (Smith, Son & Wilkie), Wolverhampton
Poulter N. (Keelings), London
Powell D.J. (Ernst & Young), Manchester
Pratt D.A. (Coopers & Lybrand), London
Preedy A.L. (KPMG Peat Marwick), London
Preston D.W. (Price Waterhouse), Birmingham
Prevedello F. (Arthur Andersen), London
Price T.G. (Wenham Major), Birmingham
Prichard A.J. (Pannell Kerr Forster), Birmingham
Prisley J.D. (KPMG Peat Marwick), Leeds
Priestley I.J. (Touche Ross & Co.), London
Priestley R.J. (KPMG Peat Marwick), Bristol
Pritt A.J. (KPMG Peat Marwick), London
Princep O. (KPMG Peat Marwick), Stoke-On-Trent
Pring C.J. (Ernst & Young), Bristol
Probert N.R. (Touche Ross & Co.), London
Prudent S.W. (Nash Broad Wesson), London
Pull A.C. (Kidsons Impey), London
Purcell S.J. (Ernst & Young), Birmingham
Purdy D.A. (Coopers & Lybrand), London
Purdy K.N. (Price Waterhouse), Windsor
Purvis E.J. (Price Waterhouse), Cardiff
Pybus M.J. (Afford Bond), Nantwich
Pyndlah K. (Wormald & Partners), Bristol

Q

Quail C.T. (KPMG Peat Marwick), Oxford
Quarshie J.K. (Ernst & Young), London

R

Race K.E. (Torgersens), Sunderland
Rachman J.D. (Stoy Hayward), London
Radley J.P. (Touche Ross & Co.), London
Rafi F.J. (KPMG Peat Marwick), London
Raja K.N. (Price Waterhouse), London
Rajakumar S. (Ernst & Young), London
Rajaratnam R. (Ernst & Young), London
Rake K.A. (Beavis Walker), London
Ramnath R.G. (Arram Berlyn Gardner), London
Ramshaw I.D. (Robson Rhodes), Leicester
Rana Singh M. (Murras, Baker, Jones & Co), Wolverhampton
Ranawake A.G.A. (Coopers & Lybrand), London
Randall J.D. (KPMG Peat Marwick), Maidstone
Ranson M.R. (Grant Thornton), Oxford
Ranson S. (Ernst & Young), London
Ratcliffe R.C. (Clark Whitehill), Douglas
Rathour S. (Touche Ross & Co.), London
Rawling A.E. (Neville Russell), Luton
Rayner P.E. (Pownall D.S. & Co), London
Reade C.J. (Kidsons Impey), Ipswich
Redgers S.E. (Coopers & Lybrand), Bristol
Redgewell C.N. (Jadkins), Stockport
Reed N.A. (KPMG Peat Marwick), London
Reid C.E. (Hillier Hopkins), Watford
Remnel J.C. (Coopers & Lybrand), London
Rennie J.W. (KPMG Peat Marwick), London
Renton S.A. (Ernst & Young), Jersey
Reynier P. (Coopers & Lybrand), London
Reynolds A.J. (Touche Ross & Co.), Birmingham
Reynolds D. (KPMG Peat Marwick), Leeds
Rice A.C. (Ernst & Young), London
Rich J. (Moores Rowland), Chelmsford
Richards A.P. (Moore Stephens), London
Richards J.A. (Touche Ross & Co.), Birmingham
Richards P.D.E. (Arthur Andersen), Manchester
Richards P.R. (Price Waterhouse), Cardiff
Richardson C.D. (Goldwyns), Southend-On-Sea
Richardson J.S. (Coopers & Lybrand), London
Richardson P.D. (Creen), York
Richardson S.J. (Ernst & Young), Birmingham
Richmond J.L. (Coopers & Lybrand), Jersey
Richmond M.A. (KPMG Peat Marwick), Darlington
Rider V.L. (Stoy Hayward), London
Ridley J.C. (Day, Smith & Hunter), Tunbridge Wells
Ridley C.E. (Moores Rowland), Walsall
Rigby M. (Ernst & Young), London
Riley K.M. (Whittaker & Co), Luton
Rimmer J. (Reads & Co), London
Ripley H. (BDO Binder Hamlyn), Newcastle Upon Tyne
Robbins H.C. (KPMG Peat Marwick), Swindon
Robbs De La Hoyde P.F.J. (Robson Rhodes), Cambridge
Roberts A. (KPMG Peat Marwick), Birmingham
Roberts C.E. (KPMG Peat Marwick), Nottingham
Roberts D.J. (Ernst & Young), London
Roberts D.P. (Ernst & Young), London
Roberts K.J. (Ernst & Young), Cambridge
Robertson A.K. (Price Waterhouse), London
Robertson C.A. (Grant Thornton), Manchester
Robertson C.D. (Touche Ross & Co.), London
Robertson D.J. (KPMG Peat Marwick), Newcastle Upon Tyne
Robertson D. (BDO Binder Hamlyn), Newcastle Upon Tyne
Robertson E.J. (Touche Ross & Co.), London
Robertson E.J. (BDO Binder Hamlyn), London
Robertson J. (Coopers & Lybrand), Liverpool
Robertson K.J. (Letchfords), Harrow
Robertson L.M. (Price Waterhouse), Nottingham
Robins N. (KPMG Peat Marwick), Birmingham
Robinson D. (Baker Tilly), Yeovil
Robinson J.E. (Cooper Lancaster Brewers), Bolton
Robinson P.J.W. (KPMG Peat Marwick), Cardiff
Robotham S.P. (Johnson Tidsall), Derby
Robson N.J. (Arthur Andersen), Leeds
Rodd P.B. (Pannell Kerr Forster), Nottingham
Roe D.J. (Price Waterhouse), Nottingham
Rogers P.M. (Touche Ross & Co.), Dartford
Romano M. (Ernst & Young), London
Romanovich S.V. (Auckland Goddard Hampson & Swain), Windsor
Rooks A.P.G. (Rawlinson & Hunter), Ewell
Rooney P.G. (Phillips & Co), Gerrards Cross
Rose M. (Ernst & Young), Nottingham
Rouf M.Y. (Appleby & Wood), London
Round I.E. (KPMG Peat Marwick), Manchester
Rowden J.C. (Coopers & Lybrand), London
Rowe S.K. (Hays Allan), London
Rowell S.J. (Coopers & Lybrand), London
Rowlands C.S. (Coopers & Lybrand), London
Rowntree G. (Touche Ross & Co.), London
Ruckert A.C. (Ernst & Young), Bristol
Rudd P.J. (Harrison Black), Newport
Rudolph J.D. (Price Waterhouse), London
Rughwani R. (Ernst & Young), London
Rumley J.G.G.J. (Mabe Allen), Derby
Rupp P.M. (Touche Ross & Co.), Bracknell
Russ D.M. (KPMG Peat Marwick), Southampton
Russell D.J. (Coopers & Lybrand), Leicester
Russell J.Y. (Ernst & Young), Reading
Russell P.J. (Burgess, Hodgson & Co), Canterbury
Ruthven C.W. (Ernst & Young), London
Ryan J. (Touche Ross & Co.), London
Ryland J.A. (Griffith Clarke), Stroud

S

Sadler H.E. (Touche Ross & Co.), Newcastle Upon Tyne
Sadler J. (KPMG Peat Marwick), Birmingham
Saeed F.A. (Coopers & Lybrand), London
Saffrin M.E. (Coopers & Lybrand), London
Sagayam T.A. (Coopers & Lybrand), London
Sahota J.S. (Arthur Andersen), London
Saldanha M.A.G. (Stoy Hayward), London
Sale H.J. (Casson Beckman), London
Salmon P.K. (Coopers & Lybrand), Uxbridge
Salwan P.K. (Goldblatt & Co), London
Samlinger N.P. (Coopers & Lybrand), Leicester
Samoz M.R. (Ernst & Young), London
Sams M.A. (Ensors), Ipswich
Sanderson D.G. (Coopers & Lybrand), Birmingham
Sandhu P.S. (Price Waterhouse), London
Sanderson S. (Jolly & Co), Southall
Saounatsos Z. (Ernst & Young), London
Saunders D.A. (Coopers & Lybrand), Liverpool
Saunders M. (Brooking, Knowles & Lawrence), Basingstoke
Saville-Smith C.A. (Arthur Andersen), London
Savjani S. (Brebner, Allen & Trapp), London
Savla H.P. (Richard Sharman & Company), Reigate
Seward J.E. (Stoy Hayward), Chelmsford
Saywell N.F. (Pannell Kerr Forster), London
Scanlan A.A. (Coopers & Lybrand), London
Scarrett M.J. (Newby Castleman), Leicester
Scates S.J. (Stoy Hayward), London
Scholes C.H. (Arthur Andersen), London
Scott A.M. (Orr Shatliff), London
Scott C. (Felton & Co.), Kidderminster
Scott C.J. (Whittingham, Riddell & Co), Shrewsbury
Scott G.J. (Ernst & Young), Liverpool
Scott J. (Price Waterhouse), London
Scott N.A. (KPMG Peat Marwick), London
Scott P.B. (Kidsons Impey), Hove
Seall N.J. (Ernst & Young), Bristol
Seall M.G.M. (Levy, Hyams & Co), London
Sealey A. (KPMG Peat Marwick), Sheffield
Sears M. (Price Waterhouse), London
Seaton A.K. (KPMG Peat Marwick), London
Seaton J.G. (Coopers & Lybrand), Sheffield
Semke P.P. (Coopers & Lybrand), Portsmouth
Sengelow S. (Critchleys), Abingdon
Senogles G. (Yolsey & Co.), Warrington
Settle A. (Coopers & Lybrand), London
Sewell T.W. (Kingston Smith), St. Albans
Sexton E.R. (Price Waterhouse), London
Shacklock D.M. (Buzzacott & Co), London
Shafii M.A.U. (KPMG Peat Marwick), Guildford
Shah P. (Casson Beckman), London
Shah R. (BDO Binder Hamlyn), London
Shah R. (Gordon, Leighton & Co), London
Shah T.R. (Coopers & Lybrand), London
Shah U. (Hays Allan), London
Shand A.J. (Touche Ross & Co.), Leeds
Sharif P.A. (Goodman Jones), London
Sharma A. (Kaushik-Lakha Abdulla & Co), London
Sharma A.B. (Kimches), London
Sharma N.P. (Touche Ross & Co.), London
Sharp T.J. (Robson Rhodes), Leeds
Sharpe A.E. (Coopers & Lybrand), London
Shaw C.E. (Jennings Johnson), Sunderland
Shaw K.H. (Barnes H.L. & Sons), Stratford-Upon-Avon
Shear D.M. (Coopers & Lybrand), London
Shepherd J.M. (Coopers & Lybrand), London
Sherry K. (Smailes, Goldie & Co), Hull
Shilliday N.J. (Nevhan Lilson Paull), London
Shingler E.M. (Cooper Lancaster Brewers), London
Short M.P. (KPMG Peat Marwick), Hull
Short S.K. (Cosway Roberts & Co), Clevedon
Shotton G. (Richardson, Hall, Kennedy & Co), Grimsby
Shum S. (KPMG Peat Marwick), Milton Keynes
Sibbald I. (Shipley Blackburn), London
Siddiqui A. (Goldblatt & Co), London
Siddiqui H. (Touche Ross & Co.), London
Siddiqui S. (Kimches), London
Sidek M.Z.B. (KPMG Peat Marwick), London
Silvey A.J. (Clark Whitehill), London
Simmonds J.D. (Grant Thornton), Brighton
Simonds R.K. (Grant Thornton), Bury St.Edmunds
Simons H. (Ernst & Young), London
Simons M.P. (Smith Starmer Hart), Northampton
Simpson H.G. (Touche Ross & Co.), Leeds
Singh D.T. (Touche Ross & Co.), Manchester
Singh D.V. (BDO Binder Hamlyn), London
Singh P. (Price Waterhouse), Birmingham
Singleton A.M. (Arthur Andersen), London
Singleton-Green C.K. (Price Waterhouse), Hull
Sisson C.H. (Francis Clark), Torquay
Sivanithy R. (Price Waterhouse), London
Sked D.A. (McBrides), Sidcup
Skillman S.J. (Seymour Taylor), High Wycombe
Slade R.H. (Ernst & Young), London
Slater C. (Coopers & Lybrand), London
Slattery B.J. (Price Waterhouse), London
Slaughter R. (Price Waterhouse), Newcastle Upon Tyne
Smallbone G.B. (Arthur Andersen), Reading
Smeaton L. (Arthur Andersen), London
Smith A.N.H. (KPMG Peat Marwick), London
Smith A.E. (Pleader Tovell & Co), Southampton
Smith B.A. (Coopers & Lybrand), London
Smith B.J. (Price Waterhouse), London
Smith C.J. (Price Waterhouse), Newcastle Upon Tyne
Smith C.R. (Touche Ross & Co.), Manchester
Smith D.G. (Morgan Brown & Spofforth), London
Smith D.T. (Stoy Hayward), London
Smith G.J. (Arthur Andersen), London
Smith G.T. (John W. Hinks & Co), Warley
Smith G. (Coopers & Lybrand), Norwich
Smith G.C. (Jewitt, Sparrow & Swinbank), Stockton-On-Tees
Smith H.A. (KPMG Peat Marwick), London
Smith J.R. (Jordan & Co), Scarborough
Smith J. (Rosenthal, Hass & Co), London
Smith J.J. (Touche Ross & Co.), London
Smith L.A. (BDO Binder Hamlyn), Bristol
Smith L.J. (Lubbock Fine), London
Smith M.G. (KPMG Peat Marwick), Manchester
Smith N.A. (Ernst & Young), London
Smith N.E.B. (Touche Ross & Co.), Leeds
Smith S. (Touche Ross & Co.), London
Smyth H.J. (Arthur Andersen), London
Soars J.R. (Arthur Andersen), Birmingham
Somers S.M. (KPMG Peat Marwick), London
Sopher J.A.V. (Coopers & Lybrand), London
Southern A. (Duncan Sheard Glass), Liverpool
Southern J. (Ernst & Young), London
Southerton N. (KPMG Peat Marwick), London
Soyege O.T. (Cohen Arnold & Co), London
Sparrow H.J. (Price Waterhouse), London
Spence A.J. (Coopers & Lybrand), London
Spence D.J. (Clement Keys), West Bromwich
Spence I.C. (Ernst & Young), London
Spencer P.L. (KPMG Peat Marwick), London
Spensley M.C. (Chapman Robinson & Moore), Oxford
Springett S.A.P. (KPMG Peat Marwick), Chelmsford
Springham C.L. (Pannell Kerr Forster), Guildford
Stacey D.M. (KPMG Peat Marwick), Southampton
Staley C.S. (Sugar Croydon), Leeds
Staley M.L. (Fraser & Russell), London
Stammers E.R. (Coopers & Lybrand), Gloucester
Stamp C. (Central Ryley & Co), Worley
Stanbury T.J. (Ernst & Young), London
Stanley G.B. (Price Waterhouse), London
Stanley R.M. (KPMG Peat Marwick), London
Stanton R.F.G. (Coopers & Lybrand), Reading
Stark F.M. (KPMG Peat Marwick), London
Stark P.G. (Price Waterhouse), Hull
Stasopoulos P. (KPMG Peat Marwick), Manchester
Statheropoulos D.G. (Ernst & Young), London
Steele H.A. (Moore Thompson), Spalding
Steinberg J.A. (Stoy Hayward), London
Stephens R.P. (Coopers & Lybrand), London
Stephenson P.M. (Ernst & Young), Birmingham
Stephenson P.F. (Hazlewoods), Cheltenham
Stevens G.J. (Barsham, Bradford & Hamilton), London
Stockdale C. (Kidsons Impey), Hove
Stockwell C.M. (Pannell Kerr Forster), Sheffield
Stockwell M. (Hardcastle Burton), Hoddesdon
Stockwell R.L. (KPMG Peat Marwick), London
Stone J.A. (Ernst & Young), Liverpool
Storey N.J.M. (Touche Ross & Co.), Leicester
Storr R.D. (Price Waterhouse), London
Stranks A. (Haines Watts), Wolverhampton
Stratton P. (Brebner, Allen & Trapp), London
Sugarman L.J. (Stoy Hayward), London
Sullivan D.W.J. (Moores Rowland), London
Sullivan P.A.C. (Touche Ross & Co.), Manchester
Summerhayes W.J. (Dixon Walsh), Taunton
Sung M.P.K. (Coopers & Lybrand), Cambridge
Surridge R.P. (Coopers & Lybrand), Jersey
Surtees D.W. (Price Waterhouse), London
Sussmann A.E. (KPMG Peat Marwick), London
Sutherland L.A. (Arthur Andersen), London
Sutton D.J. (Buckle Barton), Leeds
Swann A.J. (Baker Tilly), Watford
Sweet D.J. (Rothman Pantall & Co.), Winchester
Swift N.J. (Price, Bailey), Dunmow
Swinden S.P. (KPMG Peat Marwick), Oxford
Symes J.K. (Stephens F.W. & Co.), London
Szentesi G.B. (Coopers & Lybrand), Southampton

T

Tai J. (Beechams), London
Takoor S.K. (KPMG Peat Marwick), London
Talbot C.I. (John Gordon, Walton & Co), Leeds
Talbot S. (Langton Mordant), Liverpool
Tam E.M.M. (Ernst & Young), London
Tamblyn R.F. (KPMG Peat Marwick), Leeds
Tamtekin N. (Coopers & Lybrand), Northampton
Tan E.L. (KPMG Peat Marwick), London
Tan P.E.L. (Weeks Green), Southampton
Tang W. (BDO Binder Hamlyn), London
Tanner R.J. (Stoy Hayward), London
Tansey G. (Touche Ross & Co.), Bracknell
Tapper J.E. (Touche Ross & Co.), Bristol
Tate J.C. (Grant Thornton), Northampton
Taylor B.H. (Pannell Kerr Forster), London
Taylor C.E. (KPMG Peat Marwick), Hull
Taylor C.J. (Coopers & Lybrand), Manchester
Taylor C.D. (KPMG Peat Marwick), Leeds
Taylor C.L. (KPMG Peat Marwick), London
Taylor C.L. (Arthur Andersen), Birmingham
Taylor H.C. (Coopers & Lybrand), Newcastle Upon Tyne
Taylor J.S. (Cansdale & Co), Little Chalfont
Taylor M.A. (Stoy Hayward), London
Taylor N.E. (Griffin Kneill & Co), Colchester
Tear B.J. (Price Waterhouse), London
Teather S.C. (Touche Ross & Co.), London
Ternouth M.J. (Coopers & Lybrand), London
Terney A. (BDO Binder Hamlyn), Manchester
Terry J.M. (Russell Ohly), Hove
Terry M.J. (Coopers & Lybrand), Uxbridge
Terry P. (Kidsons Impey), Manchester
Thackeray Z.C. (KPMG Peat Marwick), Birmingham
Theobald T.P. (Farrell Cheesman), London
Thomas D.J. (Citroen Wells), London
Thomas G.D. (Acklands Bunker), Bristol
Thomas I.K. (KPMG Peat Marwick), London
Thomas K.J. (Bishop Fleming), Bristol
Thomas M.S. (Coopers & Lybrand), Cardiff
Thomas M.A. (Stoy Hayward), London
Thomas R.N. (Coopers & Lybrand), London
Thomas S.E. (Llewelyn, Davies & Co), Narberth
Thompson C.W. (Ernst & Young), Liverpool
Thompson C.M. (Coopers & Lybrand), London
Thompson P.F. (Ernst & Young), Manchester
Thompson R.L. (Thompson Wright), Newcastle
Thompson S.A. (KPMG Peat Marwick), Derby
Thoms M.A. (Russell Ohly), Hove
Thomson S.L (Kidsons Impey), Birmingham
Thomson S.N. (KPMG Peat Marwick), Bristol
Thomson S.G. (KPMG Peat Marwick), London
Thornton G.J. (Moore Stephens), London
Thornton G.W. (Robson Rhodes), London
Thornton N. (Kidsons Impey), London
Threadgold S.J. (Pridie Brewster), Twickenham
Thurston D. (KPMG Peat Marwick), Bristol
Tierney A.J. (Stoy Hayward), London
Tolley C.H. (Touche Ross & Co.), Bracknell
Tomassen F. (Martindale Beaumont & Co), St. Helens
Tomlinson E. (Brown, Butler & Co), Leeds
Toner G.G. (KPMG Peat Marwick), London
Toombs C.L. (Haysom Silverton & Partners), Bletchley
Torr R.M. (Smith Cooper & Partners), Barton-On-Trent
Tovell A.W. (Price Waterhouse), London
Tovey J.A.H. (Coopers & Lybrand), Cardiff
Townsend J.G. (KPMG Peat Marwick), London
Tozer E.K. (Dendy Neville), Maidstone
Tranter Y.M. (Touche Ross & Co.), Cardiff
Travis N.B. (Coopers & Lybrand), Leeds
Treece C.L. (Touche Ross & Co.), London
Trehan M. (Coopers & Lybrand), Reading
Trickey V.L. (Price Waterhouse), London
Trotman A.G. (Ernst & Young), London
Trudgeon P. (Moore Stephens), London
Trudgett S.J. (Peters, Elworthy & Moore), Cambridge
Tsui Y.C.S. (George Nottage & Co), Ilford
Tudor J.M. (BDO Binder Hamlyn), Manchester
Tufnell R.G. (Taylor, Viney & Marlow), Ingatestone
Tullock J.M. (Duncan Sheard Glass), Liverpool
Turner M.J. (Bird Luckin), Chelmsford
Turner S.J. (KPMG Peat Marwick), Manchester
Turner S.J. (Baker Tilly), Manchester
Tustin L.H. (Grant Thornton), Banbury
Tutt S.B.R. (Arnold Hill & Co), London
Tyacke S.L. (KPMG Peat Marwick), Birmingham

U

Ulanowski L.A. (Price Waterhouse), Newcastle Upon Tyne
Usher A.E. (Ernst & Young), London
Usman H.T. (Arthur Andersen), London

V

Van R. (Gruber Levinson Franks), Manchester
Varley H. (Grant Thornton), Leicester
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Varnava P.A. (Coopers & Lybrand), London
Varney A.S. (Touche Ross & Co.), London
Vass J.L. (Hughes Allen), Chelmsford
Vaughan D.R. (Leach Bright), Guildford
Veasey J.C. (Spain Brothers), Maidstone
Vigur A.A. (Coopers & Lybrand), London
Vimpany R.J. (Cooper Parry Prior & Palmer), Nottingham
Voice M.G. (Arthur Andersen), Reading
Von Seidel R.C. (Coopers & Lybrand), London

W

Wackett M.J.S. (Whittaker & Co), Luton
Waddington D. (Dolby, Holt), Liverpool
Wadhwani D. (Stoy Hayward), Wembley
Wakeham G.I. (Touche Ross & Co.), Bristol
Walden S. (KPMG Peat Marwick), Brighton
Wales J.M. (Coopers & Lybrand), Sheffield
Walker A.J. (Baker Tilly), Kingston-Upon-Thames
Walker D.P. (Ernst & Young), Manchester
Walker H.M. (Kidsons Impey), Nottingham
Walker P.J. (KPMG Peat Marwick), Darlington
Walker R.O. (Buzzacott & Co), London
Wallace A.G.H. (Touche Ross & Co.), Birmingham
Wallace Jones M.R. (Touche Ross & Co.), London
Wallace N.R.D. (Robson Rhodes), Crawley
Waller R.G. (KPMG Peat Marwick), Leeds
Walsh S.T. (Arthur Andersen), London
Walshe B.J. (Rothman Pantall & Co.), London
Walters H.C. (Coopers & Lybrand), Gloucester
Walton J. (BDO Binder Hamlyn), Wolverhampton
Walton J.M. (Touche Ross & Co.), Bristol
Walton R.A. (Price Waterhouse), London
Ward C.P.A. (Price Waterhouse), St. Albans
Ward E.C. (Price Waterhouse), Windsor
Ward K.B. (Coopers & Lybrand), Jersey
Ward L.J. (Coopers & Lybrand), Reading
Ward M. (Spicer & Oppenheim), Birmingham
Ward N.J. (Hawsons), Sheffield
Ward S.M. (Coopers & Lybrand), London
Wardle L. (Brebner, Allen & Trapp), London
Warner D.L. (KPMG Peat Marwick), London
Warner E.J. (Coopers & Lybrand), Leicester
Warner S.L. (Stoy Hayward), London
Warren T.M. (Ernst & Young), Birmingham
Warrener S.G. (KPMG Peat Marwick), Liverpool
Wash J.A.S. (Neville Russell), London
Watkins R.J. (Baker Tilly), Bradford
Watson R.J. (Price Waterhouse), London
Watson S.M. (Price Waterhouse), London
Watt C.E. (Dodd & Co.), Carlisle
Way A.B. (Whittingham, Riddell & Co), Shrewsbury
Weaver K.D. (Grant Thornton), Warrington
Weaver S.J. (Ernst & Young), London
Webb G.L. (Coopers & Lybrand), Leeds
Webster J.A. (Coopers & Lybrand), Birmingham
Wedekind H.C. (Price Waterhouse), London
Wellake J.C. (Touche Ross & Co.), London
Weeks D. (KPMG Peat Marwick), Birmingham
Wege N.J. (KPMG Peat Marwick), Basingstoke
Weisz A. (Coopers & Lybrand), Leeds
Weitzman J.M. (Lubbock Fine), London
Welikala T.M.P. (Gane Jackson Scott), London
Welinkar A. (Price Waterhouse), London
Wells C. (BDO Binder Hamlyn), St. Albans
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Whitby S.P. (Price Waterhouse), London
White C.J. (Baker Tilly), Bromley
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Whitehead R.J. (Waring J.H. & Co), Bolton
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Whiting J.M. (Coopers & Lybrand), Reading
Whittaker J. (Newby Castleman), Leicester
Whittard T.P.G. (Coopers & Lybrand), Nottingham
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Wickerson K. (Forrester Boyd), Scunthorpe
Wilden D.E. (KPMG Peat Marwick), Bristol
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Wilderspin S.P. (Price Waterhouse), London
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Wilkes M.J. (Price Waterhouse), London
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Williams A. (Bright Grahame Murray), London
Williams D. (Rickard Keen & Co), Southend-On-Sea
Williams D.S. (Stoy Hayward), London
Williams G.R. (Touche Ross & Co.), London
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Williams K. (Blakemores), London
Williams L. (KPMG Peat Marwick), Leeds
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Williams V. (Touche Ross & Co.), Manchester
Williams-Balfoe P.E.J. (Malvern & Co), London
Williamson J. (Townends), Pontefract
Willis S.J. (Arthur Andersen), London
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Wilson E.J. (Baker Tilly), London
Wilson A.T.R. (Pannell Kerr Forster), London
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Wilson H.M. (Coopers & Lybrand), Manchester
Wilson M.R. (Price Waterhouse), Windsor
Winch M.C. (Price Waterhouse), London
Windsor P. (Touche Ross & Co.), Manchester
Winn J.M. (Touche Ross & Co.), Crawley
Winters S.M. (Saffery Champness), London
Withers R.J. (Alliotts), Harrow
Wong H.T. (KPMG Peat Marwick), Birmingham
Wong L.Y.K. (KPMG Peat Marwick), Guildford
Wong T.T.Y.L. (KPMG Peat Marwick), London
Woo M.W. (Coopers & Lybrand), Leicester
Wood D.J. (Long & Co (Leeds)), Leeds
Wood J.L. (Ernst & Young), London
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Wood R.J. (Coopers & Lybrand), London
Woodcock P.J. (Rainbow Gillespie), Newcastle Upon Tyne
Woodgate P.H. (Derek Webster & Co), London
Woodhouse A.D. (Price Waterhouse), London
Woodman C.A. (Ernst & Young), London
Woodroof P.A. (Ernst & Young), Southampton
Woodward E.S. (Ernst & Young), Liverpool
Woodward P.L. (Barnes H.L. & Sons), Stratford-Upon-Avon
Woodwards T.J. (Comins & Co), London
Wooldridge S.J. (Coopers & Lybrand), Birmingham
Woolf V.H. (KPMG Peat Marwick), Ipswich
Woolley J. (Ernst & Young), London
Worledge P.J.F. (Price Waterhouse), London
Worsley B. (Jones Avens), Portsmouth
Wragg J.P. (Barber, Harrison & Platt), Sheffield
Wright A.J. (Coopers & Lybrand), London
Wright D.A. (Beechams), London
Wright F.R. (KPMG Peat Marwick), Cardiff
Wright H.S. (Touche Ross & Co.), London
Wright H.J. (KPMG Peat Marwick), Hull
Wright J.M. (BDO Binder Hamlyn), Norwich
Wright M.W. (Nicholass, Ames & Co.), London
Wright M.L. (Arthur Andersen), London
Wright P.M. (BDO Binder Hamlyn), London
Wright S.J. (Arthur Andersen), London

Y, Z

Yardley P.J. (Charles Rippin & Turner), London
Yarrow P.J. (Coopers & Lybrand), London
Yates S.W. (Arthur Andersen), London
Yeoward D.J. (KPMG Peat Marwick), Oxford
Yip K.W. (Hacker Young), London
Yong N. (KPMG Peat Marwick), London
York E. (Rickard Keen & Co), Southend-On-Sea
Yorke-Robinson C.H.A. (Gruber Levinson Franks), Manchester
Youles A.J. (Stephenson Davies), Ely
Young D.J. (Touche Ross & Co.), Manchester
Young J.A. (Coopers & Lybrand), Newcastle Upon Tyne
Young S.A.M. (Touche Ross & Co.), Bristol
Zachariah K.J. (Ernst & Young), Reading
Zenios J.D. (Arthur Andersen), London
Zimniak L. (Barnes Roffe), London

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FINANCIAL TIMES
COMPANIES & MARKETS
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INSIDE

Travelers agrees to Primerica offer

The board of Travelers, the US composite insurer, yesterday agreed to an offer from the financial services group Primerica to buy the 73 per cent of the company it did not already own. Mr Sanford Weill, who has built Primerica into one of the US's largest financial services groups, will be act as chairman and chief executive of the new group. Mr Edward Budd, head of Travelers, will remain chairman of the insurance company, but will give up the chief executive's job to Mr Robert Lipp of Primerica.

Generali continues upwards

Generali, Italy's biggest insurance group, continued the marked improvement seen in its underwriting business in the second half of last year with a sharp rise in first-half operating profits to L315bn ($199m) compared with L186bn in the same period last year. Page 22

Italian banks await sell-off

Within months, three of Italy's biggest banks should either be fully privatised or have a large share of their capital floating on the stock market. Page 24

Market reacts to supermarket

The food retailing sector took another downward lurch yesterday after Wm Morrison Supermarkets complained of falling margins. Wm Morrison shares fell 23p to 106p after the Bradford-based group said it seemed unlikely that operating profit would rise in line with sales over the next year. Page 26; Lex, Page 20

Pay-off for former Glaxo chief

Glaxo's former chief executive, Dr Ernest Mario (left), will receive a £2.7m ($4m) pay-off over the next three years following his departure in March. The sum is the largest-ever severence settlement in the UK. Dr Mario left after a boardroom bust-up over the pharmaceutical group's future direction. The sum is equivalent to 11 hours worth of sales of Glaxo's best-selling drug, the ulcer treatment Zantac. Page 26

Laura Ashley shares fall

Shares in Laura Ashley fell 22p to 87p after the clothing and home furnishings group warned that full-year profits would be more than £7m ($10.6m) below market expectations. Page 27

Halifax boosted by controls

Pre-tax profits at Halifax, the UK's biggest building society, rose 29 per cent to £411m ($621m) in the six months to July 31. It attributed the increase to quality lending, prudent provisioning and control of costs. Page 29

New oil field for Yemen

Canadian Occidental Petroleum yesterday boosted Yemen's oil production by 60 per cent with the opening of its new fields in Masila. The increased production will be a boon to Yemen's sagging economy. Unemployment is 36 per cent and annual inflation 100 per cent. Page 30

India faces wave of fund-raising

Indian companies are planning an unprecedented wave of corporate fund-raising over the next few months which will test to the limit the capacity of the country's capital markets. Back Page

Market Statistics

Companies in this issue

Chief price changes yesterday

FRANKFURT (DM)				Viacom	60⅞	+	1¼
Rises				Falls			
Aske Prt	590	+	15	Paramount	79⅝	-	1⅜
Berliner Kraft	613.8	+	18.6	Storage tech	25	-	3¼
Lufthansa	670	+	28.5	PARIS (FFr)			
Thyssen	209.3	+	5.3	Rises			
Volkswagen	367	+	11.5	Essilor Int	584	+	26
Falls				Fonc Lyonnaise	600	+	29
Goldschmidt	520	-	27	Skis Rossignol	1933	+	183
NEW YORK ($)				Falls			
Rises				Elf	680	-	22
Pfizer	62¾	+	1¼	Navigat	481.1	-	21.8
Schering-Plough	64⅞	+	1⅛	LVMH	3924	-	166
Silicon Graphics	41⅞	+	2⅛				

Tokyo closed. New York prices at 12:30.

LONDON (Pence)				Bilston Bittern	28	-	3
Rises				Bluebird Toys	519	-	24
Amstrad	56½	+	7	Bridon Estate	211	-	11
Anglia TV	375	+	13	Guinness	427	-	32
Antofagasta	915	+	55	Hay (Norman)	41	-	5
Dolphin Pack	115	+	6	McLaughlin Hvy	30	-	7
Erith	59	+	5	Morrison (Wm)	106	-	23
Fairline Boats	324	+	33	Pittards	47	-	12
Invesco	185	+	8	Quality Sftwre	528	-	36
Meyer Int	418	+	22	Sainsbury (J)	420	-	20
Oriel Int	35½	+	3½	Tesco	197½	-	11
Perpetual	765	+	37	Thorn EMI	944	-	33
Travis Perkins	275	+	30				
Falls							
Ashley (Laura)	87	-	22				

Swissair reveals loss of SFr65m

By Ian Rodger in Zurich

SWISSAIR, which is in the midst of intense negotiations on co-operation with three European airlines, has published consolidated interim accounts for the first time, revealing a loss of SFr65m ($45.7m) in the first six months of 1993.

The airline prepared the figures for a presentation to financial analysts this week, but the presentation was cancelled because of the sensitive stage that the negotiations with KLM Royal Dutch Airlines, Scandinavian Airlines System and Austrian Airlines have reached.

The four were to sign a memorandum of understanding on the "Alcazar" project by mid-September.

But the negotiations have run into difficulty on three issues; the location of a head office, the selection of a US partner airline and the valuations of each airline.

Also, Austrian is still considering whether or not to ally itself with Germany's Lufthansa instead of Alcazar.

Swissair said yesterday that agreement could be delayed until next month.

Fresh opposition to Alcazar has arisen in the Swiss financial community this week on the grounds that the proposed shareholdings – 30 per cent for each of the three larger airlines, 10 per cent for Austrian – undervalue Swissair's financial strength.

Swissair has replied that analysts must take into account two prospective competitive disadvantages it faces; being outside the European Community and facing increasingly severe aircraft movement restrictions at its home airport in Zurich.

Swissair revealed that its flight operations in the first half lost SFr43m, its hotel business lost SFr22m and its catering and other activities were at break-even.

Last month, it reported a first-half parent company loss of SFr125m.

The group made about SFr60m on aircraft sales.

The consolidated balance sheet at June 30 showed total assets of SFr9.19bn financed mainly by SFr2.8bn of shareholders' funds and SFr5.6bn of debt.

Swissair said it continued to hope to break even in the full year.

As in the past few years, this would probably depend on further aircraft sales.

Worsening champagne market undermines earlier expectations

Warning hits LVMH shares

By Alice Rawsthorn in Paris

LVMH, the French luxury goods group, yesterday warned of a fall in net profits for 1993 after a further deterioration in the champagne market.

The group, which owns some of France's most prestigious brands, including Hennessy cognac and Louis Vuitton luggage, had previously hoped to maintain profits for the full year.

Its share price fell 4.1 per cent to FFr3,924 yesterday.

The warning accompanied the announcement of a 28 per cent fall in first-half profits from FFr1.29bn ($228m) to FFr935m. This was also worse than the 25 per cent drop forecast earlier this summer by Mr Bernard Arnault, chairman. He said the situation in the champagne sector had deteriorated since the previous warning.

LVMH yesterday confirmed it had lost FFr100m on its champagne business during the first half.

The contribution from Guinness, in which it owns a 24 per cent stake, had fallen 26 per cent due to sterling's weakness against the franc.

As a result, it was unlikely to achieve the same level of profits in 1993 as last year.

Ms Joanna Clapp, an analyst at Hoare Govett, forecast a fall in LVMH's net profits, from FFr3bn in 1992 to FFr2.73bn this year.

"There should be a pick-up in earnings next year," she said. "But the improvement will be for technical reasons, such as lower restructuring and financial costs and the impact of stronger sterling on the conversion of the Guinness contribution. Trading will still be difficult."

The group saw first-half sales rise from FFr9.68bn to FFr10.03bn. However, the tough trading climate and adverse exchange rates took a toll on operating profits, which slipped from FFr2.35bn to FFr2.03bn.

The main area of difficulty for LVMH was wine and spirits, where pressure on the profitability of its cognac sales in Japan added to the problems in champagne. The drinks division's operating profits fell from FFr1.26bn to FFr667m on sales down from FFr4.49bn to FFr4.36bn.

The luggage business mustered an increase in operating profits, from FFr890m to FFr968m, on sales of FFr2.33bn against FFr2.43bn.

Perfumes and cosmetics were affected by heavy promotional expenditure. This was in spite of the momentum of recent launches, notably Christian Dior's Dune and Givenchy's Amarige. Operating profits slipped from FFr330m to FFr326m on sales up from FFr2.54bn to FFr2.86bn.

THE SHARE price of Guinness, in which LVMH owns 24 per cent, shares fell 32p to close at 427p yesterday after the UK brewing and spirits group reported a 9 per cent decline in first-half profits. It also forecast flat full-year profits and only modest growth in 1994.

Mr Anthony Greener, chairman, said: "We are still seeing signs of further deterioration in some major markets." Pre-tax profits of £320m were at the lower end of market expectations. Page 22

Battle to defend premium brands

By Philip Rawstorne and Alice Rawsthorn

THESE are difficult times for producers of deluxe brands of Scotch whisky and champagne.

The problems of recession in their largest markets worldwide have been compounded by over-production. Prices have come under pressure from value-hunting consumers and from cut-price products.

Some investors have begun to question whether consumers will ever again pay premium prices for a bottle of Johnnie Walker Black Label whisky or Moët et Chandon champagne.

"I have absolutely no doubt that as economic conditions improve, consumers will move back to strong premium brands," Mr Anthony Greener, Guinness chairman, said yesterday.

In the US, sales of Johnnie Walker Black Label and Dewar's whiskies were already beginning to pick up as the recession receded.

With a maturation period of five or six years, it has always been difficult to balance Scotch production with demand. The industry is now exercising more control than it did a decade ago. Guinness has moth-balled four malt distilleries this year and production is down to two thirds of capacity.

But the imbalance cannot be corrected quickly. Some suppliers have been able to buy whisky cheaply on the open market, blend it, bottle it and sell it at knock-down prices to large retailers.

These tertiary brands, priced as low as £7.99p ($12) a bottle in the UK, have sold well. They, together with low inflation, have restrained the price of premium brands – Guinness's price increases this year have averaged 2 per cent.

The market has polarised. For some consumers value-for-money means buying the cheapest; for others it means perhaps drinking less, but buying high quality, premium brands.

"We have not even thought of cutting prices," Mr Greener said. "We have a range of brands that we can position at different price points. To move existing brands downwards would put us on a slippery slope from which we would never recover."

The champagne industry, too, has been beset by the parallel problems of over-production and economic recession. This year the grand old champagne houses of Reims and Epernay in eastern France have experienced the toughest trading conditions in the industry's history.

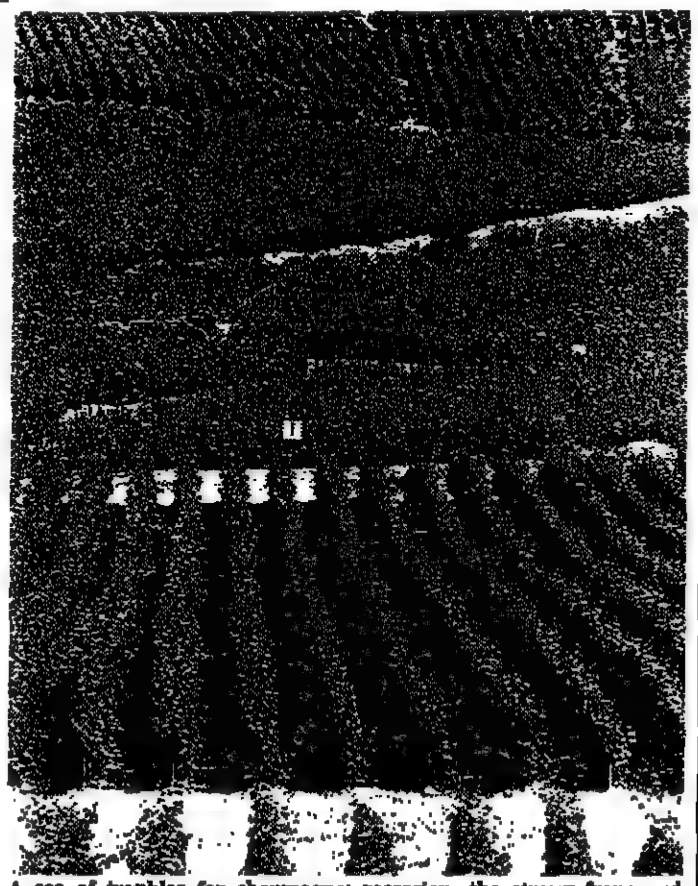
Earlier this year the difficulties were aggravated by the strength of the French franc, which had risen by up to 20 per cent against key European currencies – notably the lire, peseta and sterling.

The strong franc made it more difficult for the champagne houses to maintain momentum in their export markets. It also raised the risk of "parallel imports" being brought into France and Germany from weaker currency countries. At

The total market, which had fallen from a peak of 249m bottles in 1989 to 214m by 1992, was virtually flat in the first half of this year, according to the Comité Interprofessionel du Vin de Champagne. However, this disguises an increase in sales of low quality *petits champagnes*, dumped on the market for as little as FFr35 ($6) a bottle, squeezing the profitability of established brands.

Many producers have been forced to cut prices. LVMH, the market leader, this spring tabled plans for the first ever redundancies in the industry. The champagne unions won a legal battle to block LVMH's proposed cuts.

Price cuts and the recent fall in the franc's value seem to have some effect: the CIVC reports that sales of champagne have risen this autumn, "but only very slightly".



A sea of troubles for champagne: recession, the strong franc and cut-price competition from "petits" brands

Habérer may quit Lyonnais after loss

By Alice Rawsthorn in Paris

MR JEAN-YVES Habérer, chairman of Crédit Lyonnais, the French bank, yesterday confirmed that he was considering leaving the bank and warned that it would not be ready for privatisation for two years.

The comments, made shortly after he announced that Crédit Lyonnais had fallen from a net profit of FFr119m ($20.87m) in the first half of 1992 into a net loss of FFr1.05bn in the same period this year, follow weeks of speculation.

Mr Habérer, who has pursued a controversial expansion strategy in his five years as chairman, said he had been "sounded out about another post" but that he was not sure whether he was the only candidate. "I'm thinking about it," he said.

The French press recently tipped Mr Habérer as a likely successor to Mr Yves Lyon-Caen as chairman of the Crédit National banking group. Mr Jean Peyrelevade, chairman of the Union des Assurances de Paris insurance group, has been mooted as the next chairman of Crédit Lyonnais.

France's new centre-right government has already appointed Mr Michel Pébereau as chairman of Banque Nationale de Paris (BNP), the other leading state-controlled French bank, to run its share sale this autumn.

Mr Habérer yesterday said that Crédit Lyonnais needed "to improve its financial position" before it would be suitable for sale to the private sector.

The group, which last year fell into the red with a net loss of FFr1.8bn, has been badly affected by the French recession and has made heavy writedowns on bad loans produced by Mr Habérer's aggressive lending.

Despite the sluggish state of the banking market Crédit Lyonnais raised net banking income from FFr24.45bn in the first half of 1992 to FFr27.71bn this time. But operating costs and depreciation rose from FFr17.76bn to FFr20.74bn and the group was forced to increase net provisions from FFr6.26bn to FFr7.33bn.

Mr François Gilles, managing director, said Crédit Lyonnais expected to maintain high provisions on its corporate loans during the second half. However he was confident of an improvement in the second half because of to lower operating expenses and anticipated cuts in short-term interest rates, particularly in France.

GPA Group finalises its last chance of survival

By Maggie Urry in London

GPA Group, the Irish aircraft leasing company which has been struggling with debt of $5.8bn, yesterday finalised plans for a $150m capital raising, the granting of options to GE Capital to take control of the company, and the deferral of $750m of debt repayments for three years plus the injection of $150m of new money.

The deal was largely agreed in May, but the complexity of the documentation has delayed finalisation until now. It is designed to put the company on a stable footing, giving it time to reduce debt through aircraft sales within three years.

Mr Maurice Foley, deputy chairman, who will retire when the deal is completed but is likely to remain a non-executive director, said "the deal is not sufficient on its own but is essential to the survival of GPA. Without this there certainly isn't a future. There is no other plan behind this".

GE Capital is getting an option to buy up to 67 per cent of the company by March 1998 paying between $110m and $165m. For three years after that it can buy further shares and could take 100 per cent control of GPA.

GPA will pass the management of its assets to a new GE Capital subsidiary, GE Capital Aviation Services under a 15-year contract.

Mr Tony Ryan, founder, chairman and chief executive of GPA, and two other GPA executive directors will be employed by GECAS, leaving GPA. Mr Ryan and GPA will appoint an arbitrator to fix any compensation he is due for loss of office at GPA. The other two directors, Mr Colm Barrington and Mr James King, will not receive compensation but be given equivalent jobs at GECAS. GPA also revealed that exceptional costs of $737m relating to the group's restructuring contributed to an attributable loss of $993m in the year to March 1993, cutting the group's net worth from $1.23bn to $234m. Operating profits were $48m, down from $262m in the previous year.

Of the exceptional costs $130m related to fees for the restructuring, of which $44m went to lenders and $86m to professional advisers including 22 firms of lawyers. A further $20m related to the costs of a flotation aborted in June 1992.

The proposals will be put to shareholders at a special meeting on October 18. Existing shareholders who do not subscribe to the issue of convertible and non-convertible securities will see their holdings diluted to 10 per cent.

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Airbus to lose $2.5bn orders

By Daniel Green in London

AIRBUS, the world's second biggest commercial jet aircraft manufacturer, faces losing $2.5bn of orders in the wake of the GPA restructuring proposals yesterday.

GPA has orders for 51 Airbuses which could be cancelled. It singles out the 40 scheduled to be delivered after 1994 and warns that unless cancellation deadlines are postponed "it is likely that it would be necessary to cancel most of the . . . orders". Those deadlines are the earlier of December 31, 1993 and 30 months before delivery.

Airbus said yesterday it had not discussed this yet with GPA.

The remaining eight could also be cancelled if a charge were paid. GPA said that the charge could come from "pre-delivery payments and with no significant further likely cash outlay".

Some 45 Airbuses have been delivered so far to GPA. The restructuring proposals could cut the backlog to a handful.

The aircraft affected are A320 and A321 narrow body jets and A330 widebodied jets. GPA had already cancelled orders for 30 aircraft. Last December, GPA was Airbus' biggest customer with 123 aircraft on order.

Airbus still has orders for more than 1,700 aircraft. All four partners in the Airbus consortium – Aerospatiale of France, Deutsche Aerospace, British Aerospace and Casa of Spain – have had to scale down output to match the slowdown in expected deliveries of new aircraft. The consortium's production is now expected to grow from about 150 aircraft this year to about 170 in 1995, compared with an original target of 225 in 1995.

Boeing comes out of the GPA proposals rather better off. The cancellations and postponements detailed in the GPA proposals were reached last year.

Boeing had been scheduled to deliver 66 aircraft up to 1997. This has been reduced to 26 up to 1999.

Cancellation deadlines are being extended for four Boeing 757s. Boeing says every second order due for delivery in 1997-98 may be postponed for two years without penalty, and it has given GPA a $345m financing facility.

Sharp rise in operating profit for Generali

By Haig Simonian in Milan

GENERALI, Italy's biggest insurance group, yesterday confirmed the marked improvement seen in its underwriting business in the second half of last year with a sharp rise in first-half operating profits to L315bn ($199m), compared with L186bn in the same period last year.

However, a sharp fall in extraordinary items and asset sales meant the improvement was not carried through to the pre-tax level, where earnings fell sharply to L426bn from L733bn last year.

Net extraordinary items or asset sales dropped to just L198bn, some L325bn less than in the same period last year. Pre-tax profits were also affected by write-downs of L65bn on the group's securities portfolio, compared with a similar sized gain on its holdings in the first six months of 1992.

The upbeat trend in underwriting earnings led the group to predict that full-year profits should exceed the L675.7bn before minority interests made after tax in 1992, in spite of the fact that extraordinary earnings were unlikely to match the levels of last year.

Group premiums rose by 13.7 per cent to L4,594bn. Adjusted for exchange rate movements, the increase was limited to 8 per cent. Premiums on life insurance jumped by over 17 per cent to L1,848bn, while non-life premiums rose by 11.3 per cent to L2,746bn.

Generali said underwriting results on its Italian non-life business had improved significantly thanks to lower claims and a more selective policy towards new risks.

Performance on the life side continued to be "fully satisfactory". Underwriting results outside Italy remained under pressure, though the company said there were signs of an improvement.

Guinness falls 9% halfway

By Philip Rawstorne in London

GUINNESS, the UK brewing and spirits group, reported a 9 per cent decline in first-half profits yesterday, and forecast flat full-year profits and only modest growth in 1994.

Mr Anthony Greener, chairman and chief executive, said world conditions this year were "proving to be less favourable than previously anticipated. We are still seeing signs of further deterioration in some major markets".

He insisted that the group was performing resiliently with key brands maintaining, or gaining, share in most important regions.

But Guinness shares fell 32p to close at 427p in London.

Pre-tax profits for the six months to June 30 of £320m ($493m) were at the lower end of market expectations. The group announced that full-year results would be hit by a renewed contribution of £30m to its pension fund.

Operating profits fell 7 per cent to £384m on turnover 13 per cent ahead at £1.98bn. Profits from United Distillers, the spirits division, dipped 8 per cent to £280m on turnover of £1.11bn (up from £981m).

Though Scotch whisky volumes rose 2 per cent, sales of premium brands were lower. The change in the sales mix, competitive pricing and increased marketing costs cut operating margins from 31 to 25 per cent.

Most European markets were depressed. Volume sales were well down in Germany and Spain, but rose substantially in Greece. There were signs of a slowdown in the UK rate of decline, but prices remained under pressure.

Conditions in Japan and Thailand were difficult. Sales improved in the US, and demand for premium brands remained buoyant in Venezuela.

Diluted earnings per share were 8 per cent lower at 11.6p. The interim dividend goes up from 3.35p to 3.62p.

Lex, Page 20; Pensions, Jamaican deal, Page 23

MGN shares to be sold in offering

By Raymond Snoddy in London

THE MAJORITY stake in Mirror Group Newspapers, the newspaper group once owned by Mr Robert Maxwell, is to be disposed of by an international offering that could raise more than £350m.

Mr John Talbot, the joint administrator of Robert Maxwell Holdings, the private Maxwell company, said yesterday a formal bookbuilding process will begin on Monday, covering all the 219.68m shares or 54.8 per cent of the total.

Virtually all the shares were security for Maxwell loans and are effectively owned by banks such as National Westminster, Goldman Sachs, Midland and Lloyds.

Under the bookbuilding operation bidders have a week to submit bids either at specific prices or at the price which becomes the offer price.

Mr Talbot, who will determine the offer price and the allocations between individual investors by next Friday, decided an international offering was the best way to maximise the sum raised.

The Arthur Andersen administrator refused to be drawn yesterday on the price he hoped to obtain.

The sale could raise £50m-£70m for unsecured creditors including a contribution to the missing millions from Maxwell pension funds.

The way was cleared for the offering by last week's interim results which showed pre-tax profits of £69.9m and yesterday's extraordinary general meeting which approved a settlement between MGN and other Maxwell companies.

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Daimler to take DM1.5bn charge

By David Waller in Frankfurt

DAIMLER-BENZ, Germany's largest industrial company, will take a charge of DM1.5bn ($917m) against earnings in the third quarter of the current year to cover restructuring costs.

This emerged in a document Daimler has filed with the Securities and Exchange Commission – the regulatory body for the US securities industry – ahead of the listing of its shares on the New York Stock Exchange on October 5.

The figure fleshes out comments by Daimler management on Friday, when the company reported a loss of DM949m for the first six months of the year. This was after restating its figures in line with US Generally Accepted Accounting Principles (US GAAP) ahead of the listing.

Mr Gerhard Liener, the group's finance director, said then the losses would be considerably worse at the end of the third quarter, as the costs of rationalisation had not yet been booked against profits.

Mr Edzard Reuter, the group's chief executive, announced last week that a total of 43,900 jobs would go this year and next, taking the total shed between 1992 and 1994 to 80,000. All but between 3,000 and 4,000 of the cuts had been announced previously. The bulk of the jobs will be lost through "natural wastage", although there will be redundancies at the Mercedes-Benz luxury car subsidiary and Deutsche Aerospace, the group's aerospace subsidiary.

Analysts forecast the group will lose DM2bn for the year under US GAAP. Turnover is set to come close to DM100bn after DM98.5bn last year.

● Mercedes-Benz has agreed to acquire a 13 per cent stake in US-based Detroit Diesel Corp, the German car and truck manufacturer said, AP-DJ reports from Stuttgart.

Mercedes, the motor division of Daimler-Benz, said it took the stake through its US subsidiary Diesel Project Development. The stake is valued at $40m, the company said.

La Générale confident despite slip

By Andrew Hill in Brussels

NET consolidated profits at Société Générale de Belgique, Belgium's largest holding company, slipped to BFr4.37bn ($125m) in the first half of 1993 from BFr4.47bn last time.

The company claimed, however, it was already reaping the benefits of its new strategy aimed at reducing exposure to cyclical industrial stocks.

Before exceptional gains, it pushed up profits slightly, to BFr3.67bn from BFr3.65bn, on turnover of BFr91.9bn against BFr104bn.

As part of the strategy, La Générale yesterday announced the sale of its 43 per cent stake in CBR, the Belgian cement company, to Heidelberger Zement of Germany. The BFr22.5bn proceeds will be held in readiness for acquisitions by subsidiaries, or by the group itself.

The main contributors to the holding company's profit in the first half were Générale de Banque, Belgium's largest bank, with a profit of BFr1.23bn against BFr1.31bn last time, and Groupe AG – the Belgian part of Fortis, the Dutch-Belgian financial services group – with BFr579m against BFr525m.

La Générale was also helped by a return to profit at Recticel, the Belgian chemicals group. Recticel announced yesterday a consolidated net profit of BFr40m in the first half of 1993, compared with a BFr279m loss in the equivalent period.

The holding company, which owns 74 per cent of Recticel, benefited from BFr94m of Recticel's operating profits in the first half, against a loss of BFr43m in the first half of 1992.

La Générale warned yesterday the economic climate was unlikely to improve in the second half of 1993, and that the group's industrial companies would continue to suffer from the uncertain market situation.

However, its service companies would make "a positive contribution" to full-year results.

Back in the hunt for acquisitions

Etienne Davignon, La Générale chairman, speaks to Andrew Hill

After four years of retrenchment and cost-cutting, Société Générale de Belgique may be back in the market for acquisitions.

Yesterday, the group agreed to sell its 43 per cent stake in CBR, the Belgian cement company, to Heidelberger Zement of Germany for BFr22.5bn.

This is not money which will be frittered away on small investments, or used as a cushion against economic bad times.

Instead, Viscount Etienne Davignon, the group's ebullient pipe-smoking chairman, says he can now back up his well-known eloquence with hard cash, by giving subsidiaries – or the group itself – the ability to make large acquisitions.

According to Mr Davignon, La Générale can fulfil what he always said was its ideal role: that of a professional investor, actively participating in the strategy of its portfolio companies.

Much has changed since the early 1980s, when La Générale's lordly demands on its subsidiaries led to frequent grumbles from Brussels about autocratic or bureaucratic management by the "Vielle Dame", ensconced in her Brussels headquarters.

La Générale now claims it operates with a lighter touch – only 45 staff at the holding company are directly concerned with the surveillance of the subsidiaries. However, it is still a complex operation for outsiders to understand.

La Générale, itself 61 per cent-owned by Compagnie Suez of France, has been weathering

Etienne Davignon: group provides stability for others to grow

deep recession at the head of a portfolio of highly-cyclical stocks, including Union-Minière, Arbed, and CBR. Between 1989 and 1992 net profits dropped from BFr20.1bn to BFr6.22bn, after extraordinary items.

Suez, which rescued La Générale from the aggressive advances of Mr Carlo De Benedetti in 1988, was said to be disappointed, and keen for La Générale to dump some of its smokestack stocks. Many Belgian observers claimed the jewel in the country's economy had been sold to Paris.

This suggestion that La Générale is not in charge of its own destiny particularly riles Mr Davignon, a former EC commissioner and one of Belgium's most prominent businessmen.

Suez's relationship with La Générale, he says, is much less active than that of La Générale with its holdings.

And he adds that the Belgian group would have started to reduce the impact of cyclical industrial stocks on its results, with or without the influence of Suez.

Yesterday's sale of CBR was only the latest in a series of moves to cut La Générale's exposure to the cycles of heavy industry.

This year alone, the group has reduced its stake in Union Minière, the metals company, from 80 per cent to 75 per cent, and is looking to sell down to 50 per cent. The impact of the company's 25 per cent stake in Arbed, the Luxembourg steelmaker, has been completely eliminated from the results through a typically complex deal with the Luxembourg government.

On the positive side, the group has increased its stake in Générale de Banque, Belgium's largest bank, and is eyeing the possibility of bringing Accor, the French hotels and tourism group, into the consolidated accounts.

Services companies seemed to have a stronger influence on yesterday's interim results.

As Mr Gérard Mestrallet, chief executive, pointed out, for the first time in many years the group's operating results are edging in the opposite direction from those of Union Minière – that is, upwards.

At the same time, a services company – albeit an industrial one, electricity and gas utility Tractebel – has overtaken the metals group as La Générale's weightiest holding.

However, many analysts believe the group has not yet answered the fundamental question: what is a holding company for in a turbulent international economy?

Several brokers suggest investors seeking recovery stocks would be better advised to buy shares in the industrial companies themselves, rather than the lumbering giant which oversees them.

La Générale's management is unapologetic. If nothing else, Mr Davignon says, the holding company provides the stability for those industries to grow.

As Mr Mestrallet pointed out: "We are not a unit trust, with a spread of minority participations. We're a diversified group with interests in services and industry."

Mr Davignon adds that La Générale provides the stability for those industries to grow. "We have moved away from the parochialism of the past, when Générale's horizon was Belgium," he said.

"But what we have kept is this idea that it's not stupid, not disgraceful to be more than a financial holding company which swaps its investments every time an opportunity comes up."

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Magna to invest C$100m in European parts maker

By Bernard Simon in Toronto

MAGNA International, the Toronto-based automotive parts supplier, plans to expand its European operations by investing about C$100m (US$76m) in an unidentified parts manufacturer.

Magna said yesterday that it was in talks which may result in it buying a majority interest in an operating unit of the European group, and a minority stake in a public company within the same group. It is also investigating several other potential investments in Europe.

Magna officials declined yesterday to identify their target, beyond saying that it is a large company. But Magna has a history of close co-operation with German car and parts makers.

It already has a 50 per cent stake in a joint venture with Voest-Alpine of Austria which owns four parts factories in Germany and Austria. Magna owns another factory of its own in Germany.

To finance the proposed acquisition, Magna also announced plans yesterday to issue 3m common shares in the US and Canada at a price of C$50.50 a share. The issue will be underwritten in Canada by a group led by Richardson Greenshields. Bids have been invited from US brokers.

Mr Paul Robinson, senior vice-president for finance, said the thrust into Europe was prompted partly by potential benefits in the European market, but also to cement "stronger relationships with European customers as they move into North America". Magna already has contracts to supply BMW's new factory in South Carolina.

Mr Robinson said the investment will also encourage a "cross-fertilisation" of technologies between European and North American auto-parts plants. A substantial number of Magna's engineers and other senior managers are Europeans.

Magna has recovered strongly from financial difficulties which pushed it close to the brink in the late-1980s. It posted record profits of C$140m on sales of C$2.6bn in the year to July 31.

The share price dropped C$1.25 in early trading yesterday on the Toronto stock exchange to C$52.25.

Hermès bucks trend with doubled earnings

By Alice Rawsthorn in Paris

HERMES, the French luxury goods group, bucked the downward trend in the troubled luxury industry by almost doubling net profits to FFr54.6m ($7.1m) in the first half of this year from FFr28.6m in the corresponding period of last year.

The group, which is still run by the founding Hermès family but this summer ended more than a century of independence by issuing part of its equity on the Paris second market, said it had benefited in the first half from strong sales of leather and silk products, as well as from a reduction in financial costs.

The news of the sharp increase in Hermès' profits comes at a time when other luxury companies are under pressure. Gucci, the Italian leather goods group, is in deep financial difficulty and LVMH, the conglomerate of French businesses, yesterday reported a fall in interim profits.

Hermès, by contrast, saw sales rise by 8.2 per cent from FFr1.14bn in the first six months of 1992 to FFr1.23bn at the interim stage this year. Operating profits increased by 44.7 per cent from FFr102.8m to FFr148.8m over the same period.

Although the market for Hermès' leather and silk products was buoyant, it did experience difficulties in its perfume and tableware businesses. Hermès' finances have been strengthened by an injection of FFr141m following the flotation.

The group yesterday said that it anticipated "a slight improvement" in sales and profits for the rest of the year. However, it cautioned that the outcome was still uncertain given the volatility of the economic environment and its dependence on the pre-Christmas sales season.

Private pension fund system for Argentines

By John Barham in Buenos Aires

ARGENTINA'S Senate has approved the introduction of a private pension fund system in an important victory for the economy minister, Mr Domingo Cavallo, in his battle to modernise the economy.

The new system, partially modeled on Chile's private pension scheme, offers contributors a choice between opening individual retirement savings accounts managed by private companies or remaining in the state-run system. It is expected to be an important step in the development of Argentina's financial markets which should allow companies access to long-term domestic capital.

Under the system, employees will pay 11 per cent of wages either to a privately-managed fund or to a government-run fund. Barings Securities, the London-based brokers, estimates that the private system will hold assets of $30bn by the end of the century.

Trelleborg to dispose of Munksjö stake

By Christopher Brown-Humes in Stockholm

TRELLEBORG, the Swedish mining and metals group, yesterday said it intended to sell a 70 to 75 per cent stake in its Munksjö paper and packaging unit via a stock market listing.

The disposal is in line with the group's strategy to cut its debts by SKr3bn ($369m) over 12 months and to focus activities on its mining, metals and rubber operations. Analysts have valued Munksjö, which has annual sales of SKr3bn and is profitable, at between SKr1.5bn and SKr2bn.

The sale is part of a broader drive to strengthen the group's financial position, which has been squeezed by falling metals prices. It has announced a SKr1.1bn rights issue and plans to sell its remaining shares in Svedela, the mineral processing and transport unit. In the first half the group incurred a SKr796m loss after financial items.

Munksjö has six main divisions, comprising hygiene products, packaging, speciality papers, envelopes, valves, and pulp. Trelleborg has effectively been seeking a buyer for the unit since the end of 1991, when it was first consolidated into the company's accounts, but the slump in the worldwide pulp and paper market has made it a difficult task.

Trelleborg has net debts of about SKr10bn and has already sold assets worth SKr1.4bn this year.

● Ericsson, the Swedish telecommunications group, yesterday agreed to buy a group of companies within the Teli industrial unit of Telia, the Swedish state-owned telecommunications operator. Ericsson will supply an AXE switching system worth more than SKr1bn to Telia as part of the accord.

Ericsson said the acquisition would give it additional technical expertise, new products, increased volumes and a greater production capacity in Sweden.

Rules set for fledgling US industry

By Martin Dickson in New York

THE Federal Communications Commission yesterday set in motion the creation of a new multi-billion dollar US wireless communications industry when it laid down rules for the auction of licences to operate personal communications services (PCS) networks.

PCS is a form of wireless communications similar to the cellular telephone industry which has flourished in western nations in the past decade and involves calls being passed between radio relay stations, or "cell sites", scattered across a city. PCS, with advanced digital technology and greater density of cell sites, should allow users to get clearer calls on more lightweight, lower-powered receiving sets. Many analysts believe the technology will usher in an age of genuinely mobile telephony, with individuals able to carry a tiny receiver at all times.

For the first time in its history, the FCC is to grant radio licences for the new service by auction rather than through lotteries or hearings on the merits of applicants. The Clinton administration estimates this could raise $10bn.

A controversial issue in the months leading up to yesterday's ruling was the extent to which the commission would favour large, existing telephone companies or encourage new entrants to the industry.

Mr James Quello, FCC chairman, said he believed the plan struck a balance which would allow existing cellular carriers and mostly smaller new businesses to succeed in PCS.

By a two-to-one vote, the Commission said it would set aside 160MHz of space in the radio spectrum for PCS – four times as much as for cellular – with 120MHz going to licenced carriers and 40MHz for unlicenced use.

It would allow up to seven licences in each PCS market, with two for larger carriers and five for smaller ones. Firms would be able to bid for four 10MHz bands, one 20MHz band and two 30MHz ones.

Existing cellular carriers would be able to bid on 10 MHz of the spectrum in their current markets and for any amount outside areas where they had cellular operations.

Mr Craig McCaw, chairman of McCaw Cellular Communications, the largest cellular service company in the US, applauded the ruling, saying that the decision to issue licences of varying size to both experienced providers and new entrants would ensure a wide variety of services at competitive prices.

United Air, Emirates in alliance

By Paul Betts, Aerospace Correspondent

UNITED Airlines, one of the three biggest US carriers, has reached a marketing alliance with Emirates, the fast-growing Dubai airline, in a further move to expand its international network.

United is also close to finalising a wide-ranging commercial agreement with Lufthansa of Germany, which hinges on the outcome of negotiations in Bonn this week on a new bilateral aviation agreement between Germany and the US.

The marketing partnership with Emirates will include code-sharing services from the US to Dubai via London's Heathrow airport.

Code-sharing allows the airlines to use each other's flight identification code to book passengers in computer reservation systems.

This will enable United to link its flights to Emirates' extensive network to and from the Middle East, the Indian sub-continent and Asia, with United's trans-Atlantic and trans-Pacific services and its domestic US route system.

Emirates is launching a second and daily service from Heathrow to Dubai next month, timed to connect with United's trans-Atlantic services.

The proposed partnership between United and Lufthansa would also involve a code-sharing agreement, giving Lufthansa greater access into the US market and boosting United's reach into the European market.

Lufthansa has been seeking a strong US partner to strengthen its competitive position on the North Atlantic. British Airways has already forged a partnership with USAir, KLM Royal Dutch Airlines with Northwest, and Air France reached a commercial agreement with Continental Airlines this summer.

The deal, however, has been blocked by the failure so far of the US and German governments to agree a new aviation deal.

Negotiations have been blocked by German demands for a three-year capacity freeze on North Atlantic services to and from Germany, and US demands to allow Northwest the right to extend its North Atlantic services to Amsterdam on to Germany.

Charge hits shares at US brewery

By Frank McGurty in New York

SHARES in Anheuser-Busch, the US brewery and food group, slid in New York yesterday morning after the company announced that it would post a loss in the third quarter as a result of a one-time pre-tax charge of $565m.

The company said the provision, which works through at about $1.26 a share, would cover the cost of implementing a package of "significant organisational and operational changes". In the third quarter of 1992, Anheuser-Busch posted net income of $318m, or $1.12.

The announcement, which had come after the close of the New York Stock Exchange on Wednesday, triggered a sharp reaction when the market opened yesterday, with the share price falling $2 to $43¾ in early trading.

In the most prominent feature of the plan, the company will reduce salaried staff by 10 per cent, or about 1,200 workers, by the end of next year.

It said it hoped to achieve the cuts primarily through attrition and an early retirement package to be offered to employees aged 53 or older.

Losses at Ciga deepen to L110bn

By Haig Simonian in Milan

LOSSES at Ciga, the troubled luxury hotels group controlled by the Aga Khan, virtually doubled to L110.1bn ($69m) in the first half of this year from L58.9bn.

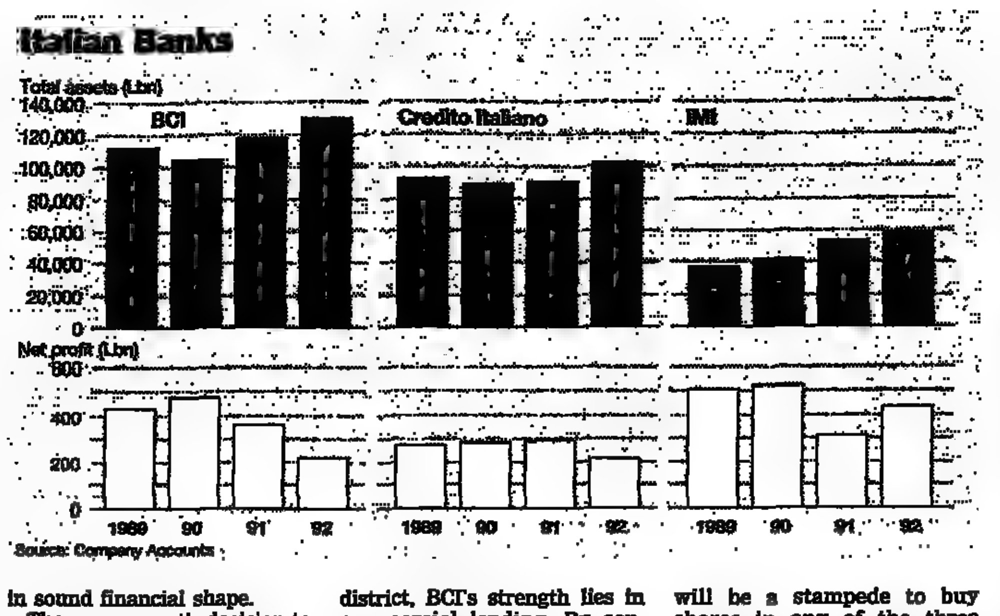
Interest charges soared to L85.1bn from L48.2bn, partly reflecting the impact of last year's lira devaluation on borrowings, some of which are in foreign currencies. Total group debts rose to L1,011bn at the end of June from L971bn last December.

The deeper losses cast further doubts over the future of the group, which is still waiting for the release of a rescue plan by Mediobanca, the Milanese merchant bank. Ciga has stopped paying interest on most of its loans, while the Aga Khan earlier this year said he was unlikely to devote more of his personal resources.

Group turnover fell 10 per cent to L209.2bn, in spite of a 10 per cent rise in occupancy levels at Ciga's Italian hotels, which form the bulk of its chain. The company attributed much of the decline to last year's sale of a Sardinian supermarkets chain and lower occupancy levels at its non-Italian hotels.

Italian banks prepare for privatisation

Haig Simonian writes on a financial transformation starting to take place



Source: Company Accounts

WITHIN a matter of months, three of Italy's biggest banks should either be fully privatised or have a significant share of their capital floating on the stock market.

The deals, involving Banca Commerciale Italiana and Credito Italiano, two big banks owned by the IRI state holding company, and Istituto Mobiliare Italiano, a state-controlled financial services group, are visible signs of the transformation now taking place within Italian finance.

To be successful, the three deals will have to create popular demand at a time when bank shares are suffering from sharply higher bad debt provisions. Potential investors will also have to be persuaded they will not end up as unprotected minorities in companies where decision-making is dominated by a hard core of institutional and industrial interests.

To some extent this is a less likely scenario at IMI than at the two IRI-controlled banks. Based in Rome, IMI's main activity is long-term industrial lending, from which it has expanded into securities trading, fund management, insurance and retail banking.

The group last week reported a net profit of L284bn for the first half of 1993: this is more than some bigger banks make in a full year. Though earnings have been overshadowed by a long-running court case involving a L900bn claim by the heirs of a former client, the bank is in sound financial shape.

The government's decision to float an opening tranche of about 20 per cent in IMI was based more on expediency than ideology after painfully-long negotiations on a sale to a group of big savings banks led by Milan's Cariplo failed earlier this year.

A flotation also represented a last option for IRI's controlling stake in Credito Italiano since alternative informal soundings by Merrill Lynch, the US investment bank, failed to identify a trade buyer or suitable pool of foreign and domestic institutions willing to buy the bank.

Slightly bigger than Credito Italiano, its near neighbour in the heart of Milan's financial district, BCI's strength lies in commercial lending. By contrast, both banks have been relatively late converts to wide-scale retail banking, once left to regional savings institutions, and have spent heavily in the past three years extending their branch networks.

Investment in new branches affected earnings at both banks last year. Profits were also hit by heavy write-downs on securities and higher loan loss provisions. This year's outlook is for continuing pressure on earnings, though buoyant income on securities trading should compensate partly for what are expected to be much bigger loan provisions.

Given the weakness of the sector, analysts doubt there will be a stampede to buy shares in any of the three banks about to be offered, although BCI is expected to generate most interest.

However, one crucial factor may change matters. Italy's prime minister, Mr Carlo Azeglio Ciampi, shares the determination of his predecessor, Mr Giuliano Amato, to sell off state assets. The difference is that Mr Ciampi seems much more disposed to use the stock market to do so.

Mr Ciampi has put public share offerings at the top of his government's agenda. The fact that the Milan bourse has been Europe's best performer this year has provided an additional head of steam.

However, there is at least one wild card in the pack. Many analysts believe Mediobanca, the Milan merchant bank, is determined to gain control of BCI. According to Milan banking legend, Mediobanca has for years nursed the hope of creating a northern Italian financial powerhouse combining the talents of BCI and Mediobanca.

Mediobanca's strength in financial services would be reinforced by having powerful institutions such as the big Generali insurance group and the Fiat-controlled Gemina investment concern as core shareholders, along with some of northern Italy's leading private-sector industrialists.

There is also an element of self-interest behind such ambitions. The privatisation of IRI's stakes in Credito Italiano and BCI could put Mediobanca's own future into doubt.

Mediobanca' independence has until recently been assured by a complex shareholding arrangement in which control is held by Credito Italiano and BCI, along with Banca di Roma. The rest of its shares are either floating or owned by a core of friendly private-sector institutions.

While Banca di Roma has indicated that it does not intend to change its relationship with Mediobanca, the privatisation of Credito Italiano and BCI could conceivably mark any number of new turning points.

AT&T will not oppose BT's MCI share deal

By Martin Dickson in New York

AMERICAN Telephone & Telegraph said that it would not oppose British Telecom's plan to take a 20 per cent stake in MCI Communications, AT&T's main rival in the US long distance telephone market.

However, it simultaneously urged the Federal Communications Commission, which governs the industry, to bring in new rules to ensure that before a foreign carrier was allowed to operate in the US market, US carriers must have comparable access to the foreign carrier's market within a reasonable period – two years as a rule of thumb.

The move came in response to an MCI filing with the FCC seeking confirmation that the BT deal conforms to commission regulations. BT agreed in June to take a one-fifth stake in MCI for $4.3bn.

Britain's Department of Trade and Industry is considering an application from AT&T for a licence to gain direct access to the UK public telecommunications network.

Mr Alex Mandl, chief executive of AT&T's communications services group, said that "in the absence of any comprehensive rules, the FCC is allowing foreign-based carriers to enter the wide-open US market while American carriers are often kept out of the home market of these foreign companies".

In a separate filing with the FCC, AT&T also urged the commission to end the company's designation as the "dominant" carrier in the US and treat it like other long-distance companies.

AT&T, which at one time had a virtual monopoly of the long-distance segment, now accounts for around 60 per cent of the US market, which was thrown open to full competition in 1984.

Because of its dominant carrier status, the company's actions face greater scrutiny by the FCC than its smaller rivals, for example requiring it to notify the commission in advance of new services.

Bertelsmann 16% ahead but shuns bid for Paramount

By Ariane Genillard in Gütersloh

BERTELSMANN, the German media group, has denied any intention to bid for Paramount, the Hollywood-based film group, after reporting a 16 per cent increase in net profit for the year ended June.

But the company said it was continuing discussions with Paramount and with other US media groups with a view to smaller acquisitions in individual divisions.

The privately-owned German group had been rumoured as a potential buyer for Paramount because of its healthy financial position and its desire to expand in the electronic media field.

The group has repaid all its debt and has accumulated liquid funds totalling DM425m.

Mr Mark Wössner, chief executive, said Paramount was "too expensive" and that such a "grandiose investment was beyond imagination". He stressed that it would be incompatible with Bertelsmann's conservative investment approach.

Group operating profits for the year grew by 20 per cent to DM1.43bn on sales 6.5 per cent higher at DM17bn. Net income was DM660m.

Bertelsmann achieved its highest growth in its music division which includes the Arista Records company of the US. Sales for the division, which accounts for a third of total, turnover rose 13 per cent to DM4.42bn.

Gruner + Jahr, the second-largest division which comprises newspapers and magazines, recorded a 4 per cent rise in sales to DM3.75bn. Book clubs, with 23m subscribers worldwide, continued to show good results.

Sales of the printing and manufacturing division were down 3 per cent to DM2.95bn, mainly due to a fall in the price of paper.

In electronic media, gratifying results came from RTL, the largest private channel in Germany.

But Vox, the private television venture featuring a mix of news and general programmes and launched at the beginning of the year was disappointing. A new design for Vox is planned for November.

Premiere, the only pay-TV channel in Germany, was due to break even this autumn, the company said.

Bertelsmann stressed it had achieved particularly good results in the US with Bantam Doubleday Dell, the publishing group reporting profits for the year.

Mr Wössner said the current business year would be more difficult because of the general recession, but results similar to those recorded in 1992-93 could be expected.

Siemens pays $38m for Polish telecoms producers

By Christopher Bobinski in Warsaw

SIEMENS is to pay US$38.5m for two Polish telecommunications and electronic equipment producers in an agreement that gives it access, along with Alcatel of Spain and AT&T of the US, to the rapidly expanding Polish telecoms market.

The deal signed yesterday also signals confidence by a major western investor that Poland's market reforms will continue following the weekend elections. "We are moving ahead with full speed," said Mr Lothar Plehwe, a senior director at Siemens said in Warsaw. "We hear that all the elected parties want to continue with the process of privatisation."

Siemens has promised to invest $57m over six years in the two plants, ZWUT in Warsaw, which is primarily a telecommunications equipment producer, and Elwro in Wroclaw, an electronics plant. Both companies have heavy borrowings and $30.2m of the purchase price will go to covering debt.

Last year AT&T paid $28m for the Telfa in Bydgoszcz and promised to invest $45m in the plant. Alcatel has paid $37.3m for the PZT works in Warsaw and Teletra in Poznan, and agreed to invest $60m in both factories.

Ericsson of Sweden has been chosen as a prospective supplier of mobile radio equipment for the armed forces in a contract worth around $100m. It would also involve joint production with the Unimor television plant in Gdansk.

TP SA, the Polish state-owned telephone monopoly which made a profit of 5,400bn zlotys (US$277m) last year on sales of 19,000bn zlotys, plans to invest some 10,000bn zlotys this year.

Between 1990 and 1992, Poland installed some 800,000 lines. A further 540,000 will be put in this year and another 8m lines should be in place by the end of the decade at a cost of up to $1.5bn a year. This will increase the number of telephones per 100 inhabitants to 20, according to Privatisation Ministry estimates.

Yesterday Mr Plehwe warned that Siemens' investment in Poland would only prove successful if the government sticks to its development plans. However, the German group has the right to cut its investment commitment in ZWUT and Elwro if the telephone authorities fail to provide the contracts on the scale at present envisaged.

Foreign suppliers of telecommunications equipment to Poland have been told they must produce locally half of the product to be supplied. They must also purchase state sector companies if they are to have a share of the domestic market.

Financing for TPSA's investment programme has come from a $200m World Bank loan as well as the European Investment Bank and commercial credits raised by suppliers.

Lyonnaise des Eaux Dumez halves net profit

By John Ridding in Paris

LYONNAISE des Eaux Dumez, the French industrial and utility group, announced a halving of net profits in the first six months of the year from FFr711m to FFr342m ($60m).

The company said the downturn reflected the weakness of the European construction and property sectors but forecast that full-year net profits would be higher than the FFr379m achieved in 1992.

The first-half result was achieved on sales of FFr45.1bn, about the same level as in the corresponding period last year. Exceptional gains fell from FFr629m to FFr300m between the two periods.

The group's property division continued to suffer, reporting a net loss of FFr330m compared with a loss of FFr273m in the first half of 1992. Construction losses increased more sharply, rising from FFr4m in the first six months of last year to FFr139m this year. The holding and services division raised net profits from FFr566m to FFr768m.

INTERNATIONAL CAPITAL MARKETS

Russian power struggle dominates European trading

By Conner Middelmann in London and Patrick Harverson in New York

EUROPEAN government bond trading was choppy yesterday with the market again dominated by the power struggle in Russia. Dealers reported heavy trading activity by the big investment and hedge funds, which boosted futures turnover and left most cash markets trailing behind.

■ GERMAN bonds had another rollercoaster ride, with the Bund future edging higher in the morning but falling sharply in early afternoon on confused rumours of troop movements in Moscow. The contract slid as low as 98.25, which one trader described as "a glaring buying opportunity". Indeed, the price recovered slightly towards the close, ending at 98.42.

GOVERNMENT BONDS

Trade is expected to remain erratic as long as uncertainty in Russia persists. "I wouldn't be surprised if some investors decide to leave the German market and go elsewhere, given that we've had a very strong run here," said a Frankfurt trader.

Bunds today are likely to continue being driven by currency movements and Russian rumours, as well as typical Friday position-squaring as traders seek to reduce their exposure ahead of the weekend.

Dealers are also looking to the release of the regional September CPI, expected today. The market has discounted a year-on-year rate of around 4.1 per cent, though forecasts range between 3.8 per cent and 4.4 per cent.

■ DUTCH bonds were dragged lower by weakness in the German market. The yield spread was unchanged from Wednesday, with Dutch bonds yielding 20 basis points below bunds.

■ UK GILTS were among the main beneficiaries of the continental markets' weakness and ended nearly ½ point higher on the day. The 10-year yield spread over Germany narrowed sharply on large switches from bunds into gilts, with the yield gap between the 8 per cent gilts due 2003 and the 6½ per cent Bunds due 2003 narrowing to around 86 basis points from 106 basis points two days ago.

The bulk of trading activity took place in the futures pits, where London traders reported a massive switch by a US hedge fund into gilts out of bunds. Retail activity was thin but the market has remained well supported in recent days.

"With next week's gilt auction and the Russian troubles, there have been enough reasons to sell – but no one did, which augurs well for our market," said a gilts trader.

■ FRENCH government bonds again tracked bunds, though France outperformed Germany on the day. After yielding seven basis points over bunds early on Wednesday, French 10-year bonds yielded two basis points below bunds at yesterday's close.

As expected, the Bank of France did not cut interest rates at its latest open-market operation, but this had limited market impact.

■ ITALIAN government bonds rose in the afternoon on a largely technical rebound from recent weakness. The December BTP contract on Liffe rose half a point to close at 112.86.

■ US TREASURY bond prices posted strong gains yesterday morning following a weaker than expected weekly jobless claims report. By midday the benchmark 30-year government bond had risen by ⅜ to 102$\frac{28}{32}$, yielding 6.034 per cent.

At the short end of the market, the two-year note was $\frac{1}{32}$ higher, yielding 3.875 per cent.

After a string of declines, Treasuries bounced back strongly yesterday morning. The spark that set off the buying was the release of weekly jobless claims data, which showed that the number of people claiming state unemployment insurance rose by 11,000 in the week ended September 18, a much bigger rise than most analysts had forecast.

Dealers also said that some of the gains at the long end of the market were attributable to a technical correction.

FT FIXED INTEREST INDICES

	Sep 23	Sep 22	Sep 21	Sep 20	Sep 17	Year ago	High *	Low *
Govt Secs (UK)	101.50	101.26	101.38	101.57	101.91	[illegible]	102.66	93.28
Fixed Interest	122.45	122.55	122.98	[illegible]	122.65	104.50	125.28	108.57

Basis 100: Government Securities 15/10/26; Fixed Interest 1928. * for 1993. Government Securities high since compilation: 127.40 (9/1/35), low 49.18 (3/1/75). Fixed Interest high since compilation: 125.28 (1/9/93), low 50.53 (3/1/75)

GILT EDGED ACTIVITY

Indices*	Sep 22	Sep 21	Sep 20	Sep 17	Sep 16
Gilt Edged Bargains	91.2	112.8	92.3	113.4	117.5
5-Day average	105.4	127.3	131.2	131.5	126.6

* SE activity indices rebased 1974

BENCHMARK GOVERNMENT BONDS

		Coupon	Red Date	Price	Change	Yield	Week ago	Month ago
AUSTRALIA		9.500	08/03	119.0489	-0.004	6.82	6.71	7.03
BELGIUM		9.000	03/03	111.3500	-0.350	7.30	7.16	7.12
CANADA *		7.500	12/03	103.5850	+0.110	7.00	6.93	6.95
DENMARK		8.000	05/03	108.3500	-	6.79	6.89	6.74
FRANCE	BTAN	5.750	11/98	100.3135	-0.087	5.67	5.70	5.80
	OAT	6.750	10/03	104.7000	+0.010	6.11	6.21	6.30
GERMANY		6.500	07/03	102.4550	-0.300	6.16	6.14	6.32
ITALY		10.000	08/03	103.7800	+0.120	8.82†	8.67	10.02
JAPAN	No 119	4.800	06/99	106.5470	-0.003	3.44	3.67	3.67
	No 157	4.500	06/03	103.8683	+0.072	3.95	4.07	4.28
NETHERLANDS		7.000	02/03	106.8700	-0.480	6.01	6.03	6.19
SPAIN		10.900	08/03	110.2500	-0.450	8.26	8.31	8.55
UK GILTS		7.250	03/98	103-13	+5/32	6.37	6.44	6.35
		8.000	06/03	106-28	+7/32	7.02	7.04	6.98
		9.000	10/08	115-01	+9/32	7.34	7.35	7.37
US TREASURY *		5.750	08/03	102-25	+17/32	5.38	5.41	5.59
		6.250	08/23	103-02	+5/32	6.03	6.08	6.23
ECU (French Govt)		8.000	04/03	108.4700	-0.480	6.76	6.85	6.79

London closing, *denotes New York morning session. Yields: Local market standard. † Gross annual yield (including withholding tax at 12.5 per cent payable by non-residents.) Prices: US, UK in 32nds, others in decimal. Technical Data/ATLAS Price Sources

Roche places $1.4bn of Lyons notes in the US

By Tracy Corrigan

ROCHE Holdings, the Swiss pharmaceuticals group, yesterday completed the largest Lyons (liquid yield option notes) issue by a European company.

The deal was structured as a private placement in the US market, under the Securities and Exchange Commission's rule 144a, which allows non-registered companies to place paper with approved institutional investors.

The nominal amount of the offering is $1.42bn, which will raise proceeds of $702m for Roche. The funds will be used to refinance debt from Roche's acquisition of Genentech, the US biotechnology group.

The deal was arranged by Merrill Lynch, which developed the market in Lyons – which are zero-coupon convertible bonds – in the US.

The notes have a maturity of 15 years, with put options after five and 10 years at a yield to put of 4.75 per cent. The notes are convertible into American depositary shares at an initial premium of 33 per cent, but this premium increases during the life of the issue, since accrued interest is forfeited upon conversion.

Dealers said the offering was viewed by investors as a fixed-interest investment with an equity kicker. Roche's share price has performed well at a difficult time for pharmaceutical stocks, and is well liked by analysts because of its broad range of products and low operating margins.

However, the 33 per cent initial conversion premium was considered aggressive by some traders.

Roche has made pioneering use of equity-linked instruments. In 1991, the company launched an innovative $1bn "bull spread" bond issue, while earlier this year the company issued $1bn of seven-year Eurobonds with "knock-out" warrants.

The Lyons deal is designed to increase the company's investor base in the US, and follows a a $275m issue of American depositary receipts arranged by Merrill last year.

Wilrig issues to finance rig purchases

By Karen Fossli in Oslo

WILRIG, the Norwegian oil and gas drilling company, is to issue 4m American depositary shares and make a $100m offering of senior secured notes. The proceeds will be used to help finance the acquisition of new drilling rigs, repay debt and boost working capital.

A Nasdaq listing will be sought for the 4.8m new shares, of which 2.8m would be offered in the US and 1.2m elsewhere outside Norway. The company expects to complete both the ADS and note offerings in November.

Wilrig's planned sale of 2.45m new ordinary shares to the Paris-based Forasol-Foramer Group as part payment for the $41.5m acquisition of two drilling rigs is not included in the ADS offering.

The company also has an option to buy a Drillmar I semi-submersible rig for $34m from Spanish interests.

Argentina's DM1bn offer heavily oversubscribed

By Antonia Sharpe

THE Republic of Argentina's first D-Mark Eurobond issue since 1979 was given an enthusiastic reception by investors hungry for high-yielding paper.

The DM1bn issue of five-year Eurobonds was so heavily oversubscribed that trading in the bonds opened at 99.75, well above the recommended re-offer price of 99.15.

INTERNATIONAL BONDS

Joint lead managers CSFB and Deutsche Bank decided to launch Argentina's issue at a recommended rather than a fixed re-offer price because of the high interest from retail investors.

The bonds rose as high as 100.20 for a short time but eased to around 99.40 in the late afternoon, in line with a fall in the German government bond market.

At launch, the bonds were priced to yield 250 basis points over the Bobl series 107 of medium-term German government bonds, at the bottom end of the indicated range of 250 to 260 basis points. The spread on the bonds tightened to around 235 basis points by the end of trading.

The spread on Argentina's bonds is expected to shrink further because of the persistent demand for high-yielding paper. This trend is already under way on the Republic of Venezuela's DM300m seven-year Eurobond offering, which was launched last week.

Traders said the spread on Venezuela's bonds had fallen to around 270 basis points over underlying German government bonds from 290 basis points at the launch.

Meanwhile, the World Bank is getting closer to launching its first D-Mark global bond issue. It is hosting a presentation for investors in Frankfurt on October 6 and plans to hold similar meetings in other financial centres.

NEW INTERNATIONAL BOND ISSUES

Borrower	Amount m.	Coupon %	Price	Maturity	Fees %	Spread bp	Book runner
US DOLLARS							
Corporacion Andina de Fomento	100	6.625#	99.96R	Oct.1998	0.75R	+185(W4 5yr)	CS First Boston
Cia Suzano Papel e Celulose(a)	80	10.25#	99.304R	Oct.2001	1.125R	+522 (a)	Citibank International
D-MARKS							
Republic of Argentina	1bn	8	100.90	Oct.1998	2(b)	-	CSFB/ Deutsche Bank
AUSTRIAN SCHILLINGS							
National Bank of Hungary	1bn	8.50	98.65R	Oct.2000	0.50R	+240(7⅛%-00)	GiroCredit Bank

Final terms and non-callable unless stated. The yield spread (over relevant government bond) at launch is supplied by the lead manager. #Semi-annual coupon. R: fixed re-offer price; fees are shown at the re-offer level. a) Puttable on 8/10/96 at 93.75% and on 8/10/98 at 97.285%. Spread is over interpolated 8-year Treasuries. b) Plus ½% listing fee.

The offering is likely to be launched shortly after the completion of these meetings. The World Bank has not yet disclosed any details about the terms but the market expects the offering to raise between DM3bn to DM5bn and have a maturity of 10 years.

There is also a belief that the World Bank could achieve a yield spread of less than 10 basis points over underlying German government bonds.

Yesterday's other Eurobond offerings from Latin America were overshadowed by Argentina's issue. **Corporacion Andina De Fomento** (CAF), the supranational agency which finances economic development in the Andean region, priced its $100m issue of five-year Eurobonds at the tightest yield spread achieved by a Latin American borrower for debt with this maturity.

CAF's bonds were priced to yield 185 basis points over underlying US Treasuries. Lead manager CSFB said the pricing reflected the fact that CAF is the only financial institution in Latin America to have received an investment grade credit rating. CAF is rated Baa3 by Moody's and BBB by Standard & Poor's.

Cia Suzano de Papel e Celulose, a Brazilian producer of eucalyptus pulp and paper, made its first appearance in the Eurobond market with a $80m issue of eight-year Eurobonds. The bonds, which were priced to yield 522 basis points over the interpolated eight-year US Treasury, has puts at the option of the investor at the end of the third and fifth years of the bonds' life.

Cedel service to use US Treasuries

By Conner Middelmann

CEDEL, the Luxembourg-based securities clearing house, is to launch a service which will allow customers to use US Treasuries as collateral for its financing facilities and for international settlement.

This is the first time Treasuries will be used as collateral outside the US, said Mr Michel Vermaerke, a senior manager at Cedel. The service will be launched on November 3.

Cedel's service will also cover delivery of Treasuries to and from the domestic market, custody and safe-keeping.

● The International Swaps & Derivatives Association is to conduct a survey on management practices in the derivatives market, following the Group of Thirty report.

Norway's bond market set for record year

By Karen Fossli

NORWAY'S bond market is heading for a record year, driven by a sharp fall in interest rates, said Mr Erik Jarve, president of the Oslo bourse.

Mr Jarve forecast 1993 turnover in bonds of NKr660bn ($93bn), up from NKr502bn last year and NKr425bn in 1991. He said the yield to maturity of Oslo's Brix bond index had fallen to 6.94 per cent by August from 11.40 per cent at the start of the year.

"Although the government has been an infrequent borrower in recent years, this situation is likely to change," he predicted. The central bank estimates that NKr150bn is likely to be raised through domestic government bond issues in the next five years.

MARKET STATISTICS

FT/ISMA INTERNATIONAL BOND SERVICE

Listed are the latest international bonds for which there is an adequate secondary market. Latest prices at 8:55 pm on September 23

[illegible]

RISES AND FALLS YESTERDAY

	Rises	Falls	Same
British Funds	64	1	13
Other Fixed Interest	4	4	7
Commercial, Industrial	278	243	899
Financial & Property	226	58	[illegible]
Oil & Gas	14	10	57
Plantations	[illegible]	[illegible]	[illegible]
Mines	22	41	72
Others	58	22	46
Totals	686	379	1,686

LONDON RECENT ISSUES

EQUITIES

[illegible]

FIXED INTEREST STOCKS

[illegible]

RIGHTS OFFERS

[illegible]

TRADITIONAL OPTIONS

● First Dealings Sept. 13
● Last Dealings Sept. 24
● Last Declarations Dec. 9
● For settlement Dec. 20

Calls: Aminex, BM Group, Betterware, Barratt Dev., Cathay Intl., Clarkson, Cliff Res., Hanson Wts., Kewill Systems, Phonelink and TR Tech. Put & Call: Pizza Express.

3-month call rate indications are shown in Saturday editions.

FT-SE ACTUARIES INDICES

[illegible]

LIFFE EQUITY OPTIONS

[illegible]

FT-ACTUARIES FIXED INTEREST INDICES

[illegible]

United News to sell Extel Financial

By Raymond Snoddy

LORD STEVENS, chairman of United Newspapers, publisher of the Daily and Sunday Express and the Daily Star, yesterday formally announced for the first time that he planned to sell Extel Financial, the electronic information subsidiary.

The asking price for the company, which provides a range of data, news, company information and investment accounting services, is likely to be in the £50m-£80m range.

The announcement of the long-rumoured sale came as United announced pre-tax profits of £51.3m for the first six months of 1993, a 10.4 per cent rise on last time's £46.5m.

Lord Stevens said that the decision to sell Extel Financial had been taken because of the increasing investment needs of the financial information industry. As a result, he added, "the interests of its customers and staff could probably best be developed within a larger financial information business". The sale will be handled by Veronic Suhler & Associates of New York.

Last year the business made an estimated profit of £4.9m on revenues of £33m. Extel Financial was part of the Extel Group bought by United in 1987 for £250m. Parts of the business such as the Extel Racing Service were closed soon after and others sold. The segment now being sold accounted for about 14 per cent of the original purchase.

The £51.3m pre-tax profit figure for United was in line with City expectations but Mr Derek Terrington, publishing analyst at stockbrokers Kleinwort Benson last night described the results as good, particularly the improved margins on the company's national newspaper titles.

Mr Terrington is looking for £115m pre-tax for the full year, not including exceptional items.

Earnings per share rose to 16.9p against 14.2p, an increase of 19 per cent, while the interim dividend is maintained at 7.5p.

The £190m proceeds from the July rights issue have been used to reduce net debt which now stands at £80m.

Strong advertising revenue and tight control of costs contributed to a 16 per cent profit rise from the national newspapers.

Glaxo ex-chief to receive £2.7m

By Paul Abrahams and Norma Cohen

DR Ernest Mario, former chief executive of Glaxo, the drugs group, will receive a £2.7m pay-off over the next three years following his ousting in March.

The sum, revealed in the annual report published yesterday, is the largest-ever severence settlement in the UK. The payment generated little comment among institutional investors.

Dr Mario, who had a three-year rolling contract, will receive his salary of £900,000 until June 1996. In addition, he will be paid long-term performance related bonuses for the next four years. These are based on the company's earnings per share growth compared with competitors such as Merck of the US and Wellcome of the UK.

Dr Mario also retains his 526,186 share options which lapse on dates up to August 22 1996. At yesterday's share price of 642p, they were worth £3.3m. Dr Mario purchased £28,842 worth of furniture from Glaxo when he left.

His remuneration for the year was £1.32m, which included a bonus of about £420,000. Sir Paul Girolami, chairman, received £1.44m compared with £1.19m the previous year.

Dr Mario was ousted by Sir Paul after a boardroom bust-up over Glaxo's future direction. Dr Mario said he resigned because of differences of opinion over the running of the business.

Although his £2.7m payment may appear a great deal for one man, it will have little impact on the company. The sum is equivalent to 11 hours worth of sales of Glaxo's best-selling drug, the ulcer treatment Zantac.

During Dr Mario's tenure between May 11 1989 and May 12 1993, Glaxo's share price rose from 337p to 668p and its market capitalisation increased from £10bn to £20.1bn. It outperformed the FT-A All-Share Index by 50 per cent, and the health and household sector by 12 per cent.

In August, Dr Mario became vice-chairman and chief executive of Alza Corporation of California.

The company makes drug-delivery systems. If Dr Mario works for a direct competitor of Glaxo, he loses the right to the £2.7m payment.

Problems in US hit Laura Ashley shares

By Richard Gourlay

SHARES IN Laura Ashley fell 22p to 87p after the niche clothing and home furnishings group warned its full year profits would be more than £7m below market expectations.

The group reported interim pre-tax profits down from £1.68m to £1.31m, on sales up 23 per cent at £144m (£116.8m). Currencies accounted for some of this and allowing for that the rise was 13 per cent.

Trading in North America had been slower than the group anticipated in April resulting in price markdowns in the second half being more than expected.

Taken with one-off costs of £3m, North America would be responsible for full year pre-tax profits being lower than the £10m expected by the market. Second half pre-tax profits were unlikely to be "significantly ahead of the first half."

The group will be spending a further £3m for marketing support and provisions against autumn and winter 1992 stock.

Mr Jim Maxmin, chief executive, said the group's problems were not structural. "The strategy in place is working," he said. He had been over-optimistic about the timing of the recovery in the US.

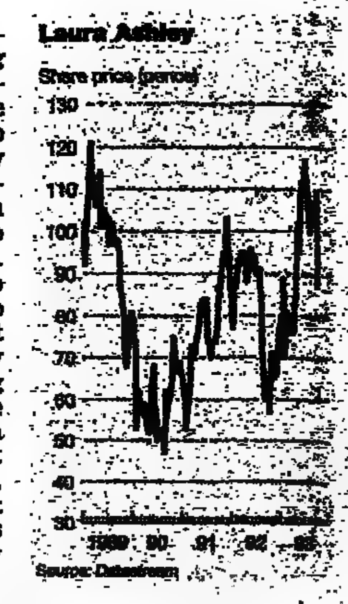
UK sales in the first half grew by 19 per cent and in continental Europe by 13 per cent. The 4 per cent rise in the US followed a 30 per cent plunge in sales in February and early March after bad weather and a decision not to repeat a large home furnishings promotion.

Earnings per share were 0.22p (0.4p), and the interim dividend is passed.

Gearing rose from 19 per cent to 28 per cent but Mr Maxmin expected a cash inflow by the year-end.

● COMMENT

Much of what Laura Ashley has done, and says it will do, sounds most convincing. Sales figures are encouraging. The strong brand appears to have consumer appeal again and the group has put in place control systems which were woefully lacking last summer and led to the dismal US performance. But the market was not expecting to hear convincing arguments again, it was expecting the first signs of results. Yesterday's sharp share price markdown was a reaction to the postponement of recovery for another year and the market's waning confidence in management's ability to get to grips with the US business. The key remains the degree to which Laura Ashley has to mark down its US prices. At the moment a staggeringly high 70 per cent are being reduced. Sort this out and the p/e multiple, now more than 100 on a profits forecast at £2.7m and earnings of 0.6p, could come crashing down. But if the mark-down problem is not addressed, Laura Ashley will remain expensive.



Birkdale launches second rights issue to fund buy

BIRKDALE Group, involved in advertising, public relations and marketing, is making a second rights issue in four months to help pay for an acquisition, writes Nigel Clark.

It also announced the disposal of Lewis Broadbent, an advertising agency, and losses for the year to March 31 of £1.94m (profits £202,000).

It is issuing 39.6m shares on a 1-for-1 basis at 8p to raise a net £2.78m. Of that £1.45m will form the cash element of the initial payment for M&K Design-In-Store with the balance providing additional working capital and repay borrowings.

M&K, which provides marketing and design services, is being bought for an initial £2.7m and further results-related payments to a maximum £800,000. The balance of the initial payment will be satisfied in shares.

M&K reported operating profits of £357,000 (£460,000) for the year to March 31 on turnover of £2.46m (£2.23m).

Lewis Broadbent is being sold to Martin Butler Associates for £127,000, including the repayment of intercompany debt. In the year to March 31 Lewis incurred a loss of £830,000 on £1.86m turnover.

Turnover fell from £21.2m to £19.7m. Losses per share were 9.7p (1.5p earnings). The final dividend is passed (0.2p), there being insufficient distributable reserves.

When the company raised £1.95m through a placing and open offer in June it said that the cash element of the M&K purchase would be met from existing resources. However, the delay in two expected subsidiary sales and the continuing poor trading conditions resulted in the need for further strengthening of the balance sheet.

Birkdale shares fell 2p to 12p.

AB buy helps TT to £9.42m

By Catherine Milton

TT GROUP, the mini conglomerate with most of its interests in electronics, impressed the City yesterday by lifting pre-tax profits from £7.47m to £9.42m in the six months to June 26, helped by the January acquisition of AB Electronics.

The interim dividend goes up to 2.6p (2.4p), payable from earnings per share of 8.2p (7.7p). The company conceded the £13m acquisition of then lossmaking AB with £26m debt, covered interests costs but diluted earnings.

Mr John Newman, joint chief executive, said AB would give further benefits next year: "We are extremely pleased with the way AB has turned out. When we bought it, it was making losses of about £10m a year and now it is trading profitably."

AB had an operating profit margin of about 1.6 per cent in the first half, contributing £1.37m to operating profits of £11.8m (£8.8m). TT put in costing systems, stepped back from chasing volume on unprofitable products and shed about 550 from the 4,000-strong workforce. It is aiming for a margin of 5 per cent by the end of next year.

Mr Newman said the market was "very strong in electronics" accounting for about 80 per cent of group sales, mainly in telecommunications, mobile phones and computer components. Packaging operations were flat at the operating level while building services were still "suffering".

Interim turnover was £179.1m (£76.6m) bolstered by £78.7m from AB.

UK customers accounted for 56 per cent of sales. First half exports were £29m compared with a full year's £32m in 1992.

At the half-year end, TT's gearing was 54 per cent (under 20 per cent a year earlier).

Interest charges were £2.33m (£1.33m), but the group received proceeds this month from its £51.4m rights issue and now has net cash of £7.5m.

● COMMENT

TT's joint-chief executives, Mr Nicholas Shipp and his Hanson-trained partner Mr Newman, are its main attraction. They buy sound businesses, fallen on hard times, turning them around within a year. After consolidation they then buy another business. AB is the latest in this successful series, with shareholders readily chipping in new equity to fund it. With AB coming good quicker than expected, pre-tax profit forecasts have been revised upwards to £24m for the full year. This gives a multiple of 15.5 which looks modest compared with a rating in the low 20s for Wassall, with similar interests and another Hanson-trained boss.

Low banana prices behind fall at Geest

By Peter Pearse

A SHARP drop in the price of bananas in Europe was the main factor behind a largely anticipated pre-tax decline at Geest, the fresh produce and prepared food group, in the 26 weeks to July 3.

The fall, from £15.4m to £3.56m came from turnover down from £359m to £333m. The interim dividend is held at 3.7p, uncovered at this stage by earnings per share down at 3.6p (15.3p).

Mr David Sugden, chief executive, said this reflected the board's confidence that the downturn was temporary and happened in a period of transition. Full-year earnings would easily cover the total dividend, he said.

Explaining the pre-tax fall, Mr Sugden said that the expected new European banana regime, which had been due to be introduced on January 1, was delayed until July 1, and that even then there had been some slowness in the granting of licences.

The new regime was now achieving its aim of stabilising prices and enabling European companies to viably compete with multinationals like Chiquita, Dole and Del Monte, Mr Sugden said. He estimated that Geest's total EC market share would rise from 7 per cent to between 12 and 14 per cent.

Group banana sales by volume grew by 40 per cent. In sterling terms banana sales rose only 7 per cent, though turnover in the whole fresh produce division fell to £276.5m (£285.2m). Operating profits were £1.13m (£11.2m).

On the prepared food side sales on continuing activities grew to £54.4m (£38.5m) while operating profits edged ahead to £3.28m (£3.21m).

Group operating profits were £3.34m (£14m). Interest receivable fell to £255,000 (£1.29m). Debt at July 3 was £32.4m.

Appleyard calls for £16.4m

By Paul Taylor

APPLEYARD GROUP, the North Yorkshire-based motor dealer, announced a 3-for-10 rights issue yesterday to raise £16.4m for acquisitions.

The cash call at 120p a share came as the group reported a jump in interim pre-tax profits and agreed to acquire WSM Motors, a Bristol-based Mercedes-Benz van and truck dealership for £1m from Union Traffic. WSM made operating profits of £123,000 in the six months to June 30.

Appleyard's shares closed down 2p at 148p yesterday.

Mr John Atkin, business development manager, said that while the proceeds of the rights issue would initially be used to reduce gearing, the longer-term aim was to make "selective and complementary acquisitions."

The group now has 57 franchises on 39 sites in the north of England and Scotland but wants to improve the balance of its portfolio and add BMW, Citroën, Fiat, Honda, Mazda and Toyota marques.

Pre-tax profits in the six months to June 30 rose from a restated £263,000 to £2.61m on turnover of £177m (£158m).

Earnings were 3.9p (0.9p) and the dividend is held at 2.6p.

● COMMENT

Appleyard is beginning to benefit from the effects of operational gearing. After cutting costs a relatively modest 12 per cent increase in turnover resulted in a 65 per cent improvement in operating profit to £3.29m. Overall, the group's return on resources employed has improved from 6.8 per cent for the 1992 first half to 17.2 per cent in the latest period and the group now has its sights on a 20 per cent plus return. Appleyard has managed to squeeze more out of 12 of its existing sites through multi-franchising. Now the group is planning to expand through acquisitions. Pre-tax profits this year should reach £5.2m producing earnings per share of 7.4p and a prospective p/e of 20.

DIVIDENDS ANNOUNCED

		Current payment	Date of payment	Corres - ponding dividend	Total for year	Total last year
Anglia TV	int	2.86	Nov 17	2.86	-	9.26
Antofagasta	int	6	Dec 7	6	-	20
Appleyard	int	2.6	Nov 5	2.6	大	5.2
Barr & WAT	int	3	Oct 29	3	-	10
Birkdale	fin	nil	-	0.2	nil	0.2
Dagenham Motors	int	1.75	Nov 18	1.75	-	5.75
Erith	int	0.35	Nov 26	0.35	-	0.55
Geest	int	3.7	Dec 31	3.7	-	8.1
Green (Ernest) §	fin	4.25	Dec 7	4.25	7	7
Guinness	int	3.62	Nov 8	3.35	-	11.85
Hampden §	int	nil	-	0.2	-	1
Highcroft Inv	int	1.9	Nov 4	1.8	-	4.9
Morrison (Wm)	int	0.2	Nov 1	0.16	-	0.8
Murray Ventures	fin	7.5	Nov 24	6.9	10.9	10.3
Pittards	int	nil	-	0.5	-	2
Ricardo	fin	3.8	-	3.8	5.7	5.7
Secure Trust	int	4.5	Nov 18	4	-	13.5
SWP §	fin	0.2	Oct 20	nil	0.2	nil
Throgmorton Dual	fin	1.85	Nov 19	1.75	7.1	7
Travis Perkins	int	2.5	Nov 1	2.5	-	8
TT	int	2.6	Oct 27	2.4	-	6
Utd Newspapers	int	7.5†	Dec 3	7.5	-	21.5
Wembley	int	nil	-	0.2	-	0.2

Dividends shown pence per share net except where otherwise stated. †On increased capital. §USM stock. 大Final of 2.6p forecast.

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Food retailing shares dip on second half warning

Margins squeezed as Morrison rises 5.5%

By Andrew Bolger

SHARES IN the food retailing sector took another downward lurch yesterday after Wm Morrison Supermarkets became the latest company to complain of falling margins.

The shares closed 23p down at 106p after the Bradford-based retailer said it seemed unlikely that operating profit would rise in line with sales over the next year.

The company increased pre-tax profits by 5.5 per cent from £36.2m to £38.2m in the six months to July 31 – below market expectations.

Sales expanded 20 per cent to £746.5m (£623.5m), but the group said this had been achieved only at the expense of a reduction in gross margins.

J Sainsbury shares yesterday fell 20p to 420p and Tesco's fell from 208½p to 197½p.

Earlier this week Tesco said it would break ranks with other food retailers and fight the growing challenge of discount food retailers by cutting the price of basic products.

Mr Ken Morrison, chairman, said: "The current trading scene is one of ever-increasing price competition and therefore pressure on margins. Cost controls through good systems and firm management are the order of the day."

The group said increased labour costs had been incurred to improve service.

Operating margins dropped from 5.8 to 5.2 per cent, leaving operating profit 8 per cent higher at £39.1m.

Since the end of the half-year, sales had exceeded last year by 18 per cent, but due to competitive openings like-for-like growth had slipped to about 2 per cent.

Mr Morrison said: "A very significant factor at work here, of course is the preference which customers are showing for more economically-priced goods at the expense of many more expensive branded products."

He was confident, however, that real growth would come from new stores built on realistically-priced sites.

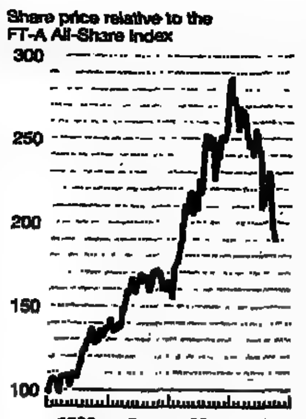
During the half year, the group opened five new superstores and has since opened one at Harrogate, with another due at Bolton in November.

Next year the group plans to open nine new superstores, and will continue to refurbish existing stores.

To supplement the existing group warehouse at Wakefield, the group said it planned to invest £20m in a new distribution centre in Cheshire, which should be functioning for trading for Christmas 1994.

Earnings per share rose to 3.38p (3.17p) and the interim dividend is increased to 0.2 (0.16p).

Wm Morrison



Source: Datastream

See Lex

Refocused Harmony Leisure cuts losses

HARMONY Leisure, the USM-quoted operator of restaurants, pubs and hotels, reduced pre-tax losses from £3.68m to £2.13m for the year to March 28. Turnover fell from £6.45m to £5.69m.

The result was after exceptional charges of £1.13m (£2.66m) of which £961,000 related to property write-downs. Losses per share were cut to 8.01p (13.83p).

In his first report to shareholders, Mr John Main, chairman and chief executive, said that substantial progress had been made in restructuring the company and refocusing its principal activities. A property investment division had been formed and the group had now agreed to buy a portfolio of mixed properties from British Land, Mr Main said, further details of which would be announced shortly.

In addition, the group had entered negotiations, which, he believed, would cumulate in the sale of most of its existing pub estate.

The directors are proposing to offer one warrant for shareholders to subscribe for one ordinary share at 15p each in the years 1994-99 for every five held.

How GPA will restructure

By Maggie Urry

GPA was much better at managing its aircraft than managing its liabilities. That sentence sums up not only how GPA got into its current mess, but also the hope it has to regain some of its shareholders' lost value.

As part of the restructuring plan detailed yesterday, GPA will pass the management of its assets to a new GE Capital subsidiary. This is an ingenious method to prevent GE Capital becoming responsible for GPA's liabilities.

In fact, the same people will operate the business, the new company, GE Capital Aviation Services, being staffed by GPA employees. And it will be based at Shannon, in the Irish Republic, as is GPA.

About 160 of GPA's staff will move to GECAS, the remaining 25 will stay with GPA.

GPA will continue to own the assets, paying GECAS a management fee of 0.43 per cent of the value of the aircraft, and will remain responsible for its liabilities.

But the 15-year management contract between GPA and GECAS should give creditors confidence. Even if GPA were to go into liquidation, the management contract would hold.

If GPA were to raise further cash by securitising aircraft – through Aircraft Lease Portfolio Securitisation or Alps – investors will have the comfort of the GECAS management contract.

The deal, if completed, should also make it easier for GPA to make outright aircraft sales. While GPA's future hung in the balance potential purchasers held back in the hope of lower prices.

GPA has also cut its order book from \$11.3bn (£7.3bn) for 242 aircraft to \$3.6bn for 57 aircraft, requiring a \$462m provision. It has sold one aircraft to GE Capital and agreed to sell a further 44, which will provide \$465m of cash to GPA.

Even so, as the prospectus for the \$150m issue of convertible and non-convertible notes says in bold capital letters "an investment in GPA's securities is speculative and high risk". The convertible notes would represent between 23 per cent and 25 per cent of GPA's capital, and are being offered to existing shareholders. Subscribers have already been found for \$129m of the notes, which is understood to be sufficient for the company's needs.

The company still faces a tough time if it is to cut its debt to a manageable level. The \$750m of debt deferred now will largely fall due in September 1996. In the year to March 1997 GPA must repay or refinance debt of \$2.36bn.

Risk factors outlined in the document include the need to sell aircraft to meet these debt obligations, its ability to refinance its debts in 1996, and litigation against the group.

If GPA overcomes these difficulties, GE Capital may decide to exercise its options. It can buy a near-two thirds stake by March 1988 at a price determined by the value of GPA's shareholders funds, but will fall between \$110m and \$165m.

It can then buy any shares created in the restructuring over the next three years, at a fair market price, and would then make an offer for the rest.

Barings trebles to £35.5m midway

By David Blackwell

BARINGS, the privately controlled UK merchant banking group, trebled pre-tax profit from £11.8m to £35.5m in the first half of 1993.

Last year the group took action to stem heavy losses at Baring Securities, its trading subsidiary, cutting 108 jobs.

Mr Peter Baring, chairman, said yesterday that the subsidiary had made a significant recovery following the reduction in both personnel and expenses. The group's reputation for the quality of its research had been retained.

It had held its leading position in its most important markets of Japan, Hong Kong, Singapore and Malaysia, and continued to grow in other south-east Asian markets as well as Latin America. Half the group's employees work outside the UK, with a quarter in the Asian region.

Investment banking had enjoyed generally favourable market conditions in the period, and Barings had been well-placed to benefit, he said.

Baring Asset Management "substantially increased" its contribution. Baring Brothers had "maintained a high level of activity" although the corporate finance market had remained relatively quiet.

Mr Baring also said that Dillon Read, the Wall Street investment bank in which it has a 40 per cent interest, had performed well during the six months.

Guinness may be forced to resume pension payments

By Norma Cohen, Investments Correspondent

GUINNESS, the brewing conglomerate, said it had been advised by actuaries to its pension scheme that recent tax changes and slower than expected dividend growth will force it to resume contributions a year or two ahead of schedule.

As a result, the company will take a charge of roughly £30m against second half profits to take account of contributions for the 1994 year.

Guinness thus joins a number of UK companies which have had to resume pension fund contributions following controversial changes to advance corporation tax announced last March.

Earlier this year, British Telecom announced it would have to add some £800m to its pension fund to compensate for a shortfall caused chiefly by the tax change and by low dividend increases.

The tax change means ACT paid on dividends which pension funds can reclaim from the Inland Revenue is reduced from 25 per cent to 20 per cent. The change has in effect cut the income in UK equity investments for pension schemes by 6.25 per cent. Over 60 per cent of Guinness' pension scheme assets are invested in UK equities.

In the year to March 1993, dividends shrank in nominal terms by 1.5 per cent while the scheme had projected that in real terms, they would grow by nil to 0.5 per cent. Guinness, like most UK pension funds, uses a method of valuing scheme assets based on the amount of income they are expected to produce over a long period of time.

Guinness has been enjoying a contributions holiday since 1986. Its scheme was amalgamated with that of Distillers which it acquired in 1986 and the actuarial surplus in the combined schemes had been expected, as of the last valuation in March 1992, to enable the contributions holiday to continue through 1994 or 1995.

Scheme members will continue paying their current rate, which ranges from nil to 5.5 per cent of net pay after deductions for National Insurance contributions, a rate roughly equal to 3 per cent of gross pay.

Although the next valuation is not scheduled to be conducted until March 1995, the actuaries, after consultation with the company, have decided it would be prudent to resume contributions next year.

Jamaican purchase to boost stout sales

By Philip Rawstorne

GUINNESS is to acquire a majority stake in Desnoes & Geddes, the Jamaican brewer of Red Stripe lager, in a move designed to expand sales of the UK group's stout throughout the Caribbean.

The group is paying between £41m and £45m for a 51-55 per cent shareholding in the Jamaican brewer, which has brewed and distributed its stout since 1987.

The Desnoes and Geddes families, and Heineken, the Dutch brewer, will retain holdings in the company.

Guinness has been exported to the Caribbean since 1818 but sales in Jamaica – which accounts for 35 per cent of the English-speaking Caribbean market – have more than doubled in volume since 1990 to 1.5m cases. The stout now has a 15 per cent share of total Jamaican beer sales.

The UK group also has a wholly owned subsidiary in Trinidad and the stout is brewed by associate companies in St Vincent and Grenada.

Mr Brenda O'Neill, managing director of Guinness Brewing Worldwide, said: "Given D&G's strategic significance in the Caribbean beer market and its leadership in Jamaica, the Guinness offer represents a logical step in the regional development of the brand."

In the year to September 1992, D&G made pre-tax profits of J\$347m (£10.5m) on sales of J\$2.26bn.

Its Red Stripe and Dragon beers, together with Guinness, Heineken lager and McEwan's ale, which it brews under licence, form a strong brands portfolio. The company also produces and markets a range of soft drinks and franchises Pepsi-Cola and Schweppes.

The Guinness deal will not affect D&G's contracts in the UK where Red Stripe lager is brewed under licence by Charles Wells and distributed by HP Bulmer.

Pittards shares fall 25%

SHARES IN Pittards fell 15p to 44p yesterday as the leather company reported a pre-tax loss of £310,000 for the six months to June 30 and warned of provisions which could hit the full year result.

Losses compared with profits of £1.27m last time and followed the warning at the end of June that profits for the first half would fall short of expectations.

At that time the directors informed shareholders that a strategic review of the poorly performing clothing and chamois division was being conducted.

A number of options, both internally and externally, were being considered.

Whatever was decided, it was likely that provisions would need to be made which could materially affect the outcome for the year.

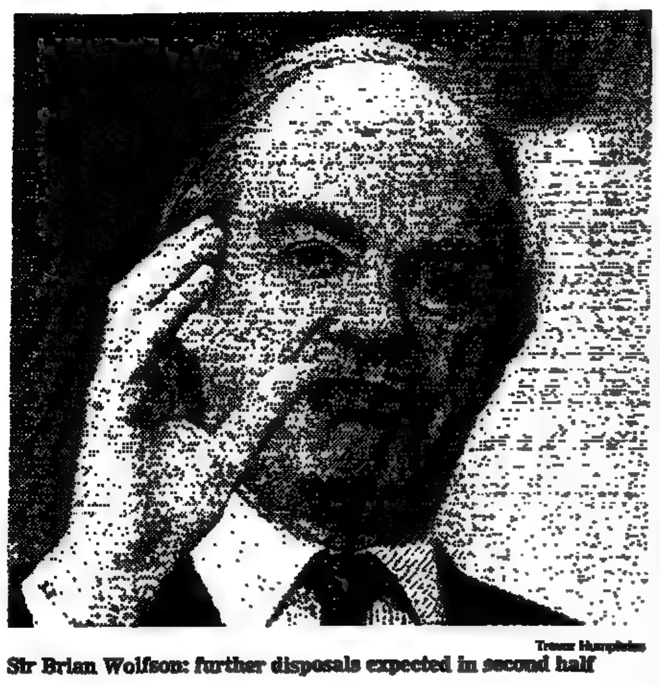
Turnover for the six months was £58.5m (£50.4m). Losses per share worked through at 2.2p (earnings 3.6p). There is no dividend (0.5p).

COMPANY NEWS: UK

Profit from disposal of investments behind advance

Wembley doubles to £2.89m

By Richard Gourlay



Trevor Humphries

Sir Brian Wolfson: further disposals expected in second half

WEMBLEY, owner of the north London stadium complex and greyhound tracks, more than doubled first half profits to £2.89m, but only after the sale of investments.

Profits from continuing operations fell from £8.02m to £6.11m with the main stadium and the smaller Arena both hosting fewer events and US greyhound operating profits falling 63 per cent.

Group pre-tax profits, including the £5.6m surplus from the sale of shares in the Ticketing Group and Autotote, rose from £1.07m to £2.89m after an interest bill of £6.9m (£7.9m). Sales were marginally higher at £78m.

Earnings per share were 0.58p compared with losses of 0.43p, but the interim dividend is passed.

The group made disposals of £15m in the first half and Sir Brian Wolfson, chairman, said he expected at least the same in the second half.

But net debt fell by only £5m to £139m, leaving gearing at 78 per cent. Wembley reiterated that in line with an agreement with its banks last year it will cut £40m from its borrowings by March 31 1994 and £50m by the end of that year.

The Wembley complex made an operating profit of £4.4m, down from £4.49m in the same period last year. Sir Brian said the performance was commendable given that there were no main stadium pop concerts in the first half, compared with seven in the same period last year, and that the number of events in the Arena fell by 13 to 53.

Profits from UK greyhound operations, which are for sale, fell 11 per cent to £1.24m, hit by evening opening of betting shops.

In the US, the greyhound operating profit fell from £1.55m to £580,000 because the Lincoln, Rhode Island, track met stiff competition from a casino based in Connecticut.

Sir Brian said Lincoln was fighting back and that the Colorado operations had not been affected.

● COMMENT

The boardroom coup against Sir Brian Wolfson may not have materialised. But the chronically optimistic Wembley chairman is not off the rocks. Asset sales have trimmed only £5m from the debt mountain; operating profits remain uncomfortably dependent on world music stars choosing to tour, something the recession has persuaded many not to do; and profits at the US greyhound operation have collapsed just as it was being groomed for sale. Shareholders can therefore expect more rough water before their shares find any buoyancy. Nor can they rely on someone providing the finance to back a hostile bid by disaffected former directors. Though Sir Brian plotted the course and was at the helm when the group went aground, he can probably count on support of shareholders representing 25 per cent of the company.

Antofagasta at £20.8m after bank merger

By Kenneth Gooding, Mining Correspondent

ANTOFAGASTA Holdings, which has mining, banking, rail and water interests in Chile, realised an £8.25m profit from the merger in June of its Banco O'Higgins associate with the Spanish-owned CentroHispano Banco and this boosted pre-tax profits for the six months to June 30 from £8.9m to £20.8m.

The group said falling copper prices since February had adversely affected results but operating profit rose by 39 per cent, from £8.4m to £11.6m, thanks to substantial increases in income from associated manufacturing and banking operations. Antofagasta warned that there was no indication yet of higher metal prices and that would affect results for the full year.

Pre-tax profit from mining operations fell from £2.42m to £2.1m on turnover up from £24.7m to £33.2m.

Total turnover rose to £40.7m (£31.9m). Earnings, excluding exceptionals, rose from 22.1p to 34.4p and an unchanged interim dividend of 6p is declared.

The bank merger reduced Antofagasta's holding in the combined entity from 47.65 per cent to 24.12 per cent.

In March the group also sold a 13.65 per cent interest in the Lince mining company for $12.3m (£7.9m). This reduced Antofagasta's effective interest from 91.4 per cent to 77.75 per cent and produced a profit on disposal of £889,000.

Travis Perkins pleases market with 79% rise

By Paul Taylor

SHARES IN Travis Perkins gained 30p to close at 275p yesterday after the timber and building materials merchant reported better than expected first-half profits, boosted by increased housebuilding.

Pre-tax profits advanced 79 per cent, from a restated FRS 3 adjusted £5.18m to £9.31m, in the six months to June 30.

Earnings per share increased from 3.5p to 5.9p and the interim dividend is unchanged at 2.5p.

The group operates 164 building materials depots and 11 garden centres. Its profit gain was achieved on turnover 10 per cent higher at £166.8m (£151.6m) and was led by trade sales to housebuilders.

In contrast the secondary market – based on the household repairs, maintenance and improvement (RMI) business – which usually accounted for 70 per cent of turnover, currently represented only about 65 per cent as home owners continued to delay projects, said Mr Tony Travis, chairman.

On a like-for-like basis sales volumes grew by 4 per cent in the first half, inflation added another 2 percentage points and acquisitions accounted for the remainder of the increase.

A lower cost base and a further improvement in productivity helped boost trading profits to £9.09m (£4.85m). While gross margins remained under pressure in the "very competitive trading environment", the level of the bad debt charge declined further to 0.75 per cent of sales, having peaked at 1.5 per cent.

Net interest receipts of £27,000 compared with net interest payments of £305,000 in 1992, and mainly reflected substantial cash inflow.

The group ended June with net cash of more than £9m.

Profits were also helped by a £195,000 (£643,000) gain on the sale of surplus properties; the group has a further 20 properties earmarked for disposal.

On the outlook Mr Travis said the improvement which began in the second quarter had continued, but he cautioned that "consumer confidence in the housing market is still fragile," and added "although a recovery is under way it is not yet firmly established."

● COMMENT

Travis Perkins' performance was substantially better than the market had been expecting and highlights the management's success in taking out costs during the recession. As a result even a slight pick-up in volume can have a dramatic effect on the bottom line. As the recovery in housebuilding begins to boost confidence the RMI business should also improve. Look for pre-tax profits of about £19.5m this year, equivalent to earnings per share of 12p. This is a quality stock but yesterday's price gain means it is trading on a lofty prospective p/e of almost 23 – it looks much cheaper against a 1995 profits forecast of £33m, equivalent to 22p per share.

Caverdale to raise £3.2m through placing

CAVERDALE Group, the motor retailing and industrial consumables concern, yesterday announced plans to raise a net £3.17m through a placing and open offer.

Directors of the Luton-based group said the proceeds would be used to replenish the cash cost of recent acquisitions and to meet increased working capital requirements of the enlarged group. Further acquisitions would be sought, they added.

The placing is of 27.22m new shares at 12½p, conditionally placed with institutional and other shareholders by Carr Kitcat and Aitken. Shareholders are offered a full clawback on a 1-for-6 basis.

Directors said there had been "no significant change" in the group's financial or trading position since the interim results were published in July showing a turnround from losses of £272,000 to pre-tax profits of £663,000.

They also said an early return to the dividend list was "realistic".

Norman Hay losses increase to £677,000

Reflecting the continuing impact of moving the Heathrow operations to Coventry and of recession, which reduced volumes and margins, Norman Hay, the engineering group, suffered higher pre-tax losses of £677,000 for the first half of 1993, against £393,000.

Turnover fell from £4.79m to £3.9m for the six months to June 30 while operating losses came to £525,000 (£454,000). The pre-tax figure was after interest payable of £152,000 against receivable of £61,000.

Losses per share amounted to 4.5p (1.8p) and again there is no interim dividend - last year the final was omitted also.

The directors stated that the decision to cease unprofitable processes – Hay is involved in processing, coating and finishing metals and plastics – would have a severe impact on results for 1993, but future benefits were to stabilise group trading position.

Dagenham Motors ahead 16% to £1.3m

DESPITE extremely tough market conditions in all sectors of the business, Dagenham Motors Group increased pre-tax profit by 16 per cent, from £1.13m to £1.3m, in the first half of 1993.

This London and south-east Ford main dealer saw new car sales volume rise 9 per cent, used car sales 7 per cent and commercial vehicles 89 per cent.

Backed up by after-sales activities ahead 15 per cent, total turnover advanced 12 per cent to £84.9m (£75.6m).

Mr David Philip, chairman, said heavy price reductions, lower interest rates, and an improvement in the market place contributed to the increase in new car sales.

The lossmaking dealerships in 1992 at Enfield and Stevenage made a positive contribution and continued to show encouraging signs of improved profitability, the company said.

The security division again increased its contribution but that was partly offset by lower profits at Brownings as a result of more pressure on margins.

On the outlook, Mr Philip said the group had the opportunity to achieve substantially better results than in the same period last year, provided there was no repeat of the difficult trading conditions experienced in the latter part of 1992.

Earnings per share came to 5p (4.4p) and the interim dividend is again 1.75p.

Kleinwort Smaller net assets rise

Net assets at Kleinwort Smaller Companies Investment Trust were 132.3p per share at July 31 against 100.8p a year earlier. Earnings were 1.55p (2.31p) and the interim dividend 1.5p (2p).

Hampden falls into red

A SLIDE from pre-tax profits of £202,000 to losses of £198,000 was announced by Hampden Group for the 24 weeks to June 19.

The USM-quoted group operates Texas Homecare home improvement stores in Northern Ireland and the Republic of Ireland under a franchise agreement with Home Charm.

It also has a joint venture with Kwik-Fit to operate motor repair centres in Northern Ireland.

Turnover was marginally down at £13.9m, against £14.1m, and the pre-tax result was after an exceptional £125,000 relating to the termination of employment of a former executive director.

Losses per share amounted to 0.89p (earnings 0.91p) and there is no dividend. Last time there was a payment of 0.2p.

The shares dipped 2p to 29p.

Murray Ventures lags benchmark

MURRAY VENTURES, an investment trust which aims to produce capital and income growth through investment primarily in medium-sized management buy-outs and capital financings, announced a total return on net assets of 26.7 per cent over the 12 months to July 31.

The outcome compared with a total return for the FT-A All-Share Index of 32.3 per cent.

Net asset value of this Murray Johnston-managed trust was 346.6p per share, a rise of 21 per cent over the year, again underperforming the FT-A All-Share which rose 26.7 per cent.

Directors described the performance as "creditable" given the delayed impact of recovery on smaller companies' trading.

Unlisted investments realised during the year amounted to £12.8m, including the flotations of Yorkshire Food and Stagecoach. Investments totalled £2.9m and included Telephone Media and Poole Pottery.

Available revenue amounted to £3.07m (£3.02m) for earnings of 12.4p (12.2p) per share.

The proposed final dividend goes up to 7.5p bringing the total for the year to 10.9p (10.3p).

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Halifax turns in 29% advance to £411m

By Andrew Jack

HALIFAX, the UK's biggest building society, yesterday reported pre-tax profits up 29 per cent to £411m in the six months to July 31 this year.

It said the increase reflected its decision to concentrate on quality lending, prudent provisioning and control of costs.

Mr Michael Blackburn, chief executive, said: "This is a further good set of results. They are what they are: very strong."

Gross lending fell to £3.9bn compared with £4.6bn in the first half of last year, and net lending declined to £1.2bn (£2.2bn).

Net interest received rose to £739m (£611m) and other income and charges increased slightly to £186m (£180m). Management expenses rose by 6 per cent to £358m (£338m).

Provisions increased by 16 per cent to £156m (£135m), but additional suspended interest – or interest payments written off – almost halved to £18m (£37m).

The number of mortgages at least one year in arrears fell to 21,100 (23,600), or to £235m (£320m) by value. That represented a reduction in arrears as a proportion of total mortgages to 0.44 per cent (0.63 per cent).

Mr Blackburn warned that the housing market was "anaemic" but said: "The worst is past. We are optimistic that there may be a few red corpuscles coming through."

He said applications for new mortgages were at about the same level as last year, which had been distorted by the government's temporary suspension of stamp duty.

The Halifax's market share of mortgage lending fell back to 15 per cent from an unusually high 19 per cent in the first half last year, but its share of liquid savings almost doubled from 9 per cent to 16 per cent.

The balance sheet was strengthened, with the gross capital ratio rising to 6.69 per cent (6.02 per cent). "We are in a very strong position to take advantage of the recovery when it comes," Mr Blackburn said.

The net interest margin rose to an annualised 2.32 per cent for the half year from 2.04 per cent, which he said partly reflected a move from the previous Halifax emphasis of "favouring the saver at the expense of the borrower".

In line with the practice of a number of other companies in recent months, the Halifax had its figures examined by KPMG Peat Marwick, its auditors, although such an inspection is not required. "We want to be at the forefront of best practice," said Mr Blackburn.

Anglia TV up 13p on 'very good' results

By David Blackwell

INTERIM pre-tax profits at Anglia Television tumbled 59 per cent, from a restated £5.18m to £2.12m, in the first period of operation under its new franchise.

However, Sir Peter Gibbings, chairman, said the accounts this time were not strictly comparable with last year as they included payment to the Treasury of £12.2m. This represented part of the £17.8m franchise bid and 7 per cent of the qualifying advertising revenue for the period. The comparable levy last year was [illegible],000.

"The results in the light of that are really very good," he claimed. The shares moved up 13p to 375p.

Total revenues for the first half of 1993 were £61m (£67.6m). Of this, programme sales were down from £12.9m to £9.79m, and advertising and other revenues amounted to £51.2m, against £54.7m.

It was stressed, however, that these were not comparable as, under the new franchise, the company no longer sold airtime for Channel 4 but was in direct competition with it.

Sir Peter said the company expected to take about 53 per cent of its annual advertising revenue in the second half. While this was difficult to forecast, the third quarter was developing in line with the first half, when Channel 3 revenue grew by 7 per cent.

He estimated that Anglia's share had risen by 0.3 per cent, giving it well over 7 per cent of the total.

Operating profits were £635,000 (£4.2m). The latest pre-tax figure includes £809,000 of goodwill arising from a joint venture with Home Box Office, a division of Time-Warner, and £676,000 (£970,000) from investment income and interest.

Earnings per share fell from 7.76p to 3.38p. The interim dividend is unchanged at 2.86p but the company said it would be considering an increase in the final.

Automotive boost for Ricardo

By David Blackwell

Rodney Westhead (left), finance director; Christopher Ross and Sir Philip Foreman with Ricardo's light strike vehicle prototype. The vehicle is suitable for airdrop and currently used by the SAS

RICARDO GROUP, the engineering consultancy where top management changed last year after a boardroom upheaval, reported pre-tax profits up 31 per cent, from £2.04m to £2.67m, for the year to end-June.

Sir Philip Foreman, chairman, said the new team had carried out the commitment made a year ago to do better for shareholders, in spite of continuing economic difficulties in its business sectors.

The group now operates three divisions – automotive, aerospace, and a mainly nuclear-based high technology consultancy.

Mr Christopher Ross, chief executive, said the automotive division had been the group's main strength.

The division carries out work for Japanese, US and EC carmakers on exhaust emissions, noise, fuel economy and performance, and now numbers four of the six German carmakers among its customers.

The group had transferred its thinking in the automotive sector to its other divisions over the past year, he said, moving into more high margin, added value work.

Customers included Rolls-Royce and Airbus, and the group had won a big contract from Shorts of Belfast for work on a new executive Lear jet.

Operating profits were ahead 69 per cent at £4.14m (£2.44m) on turnover up 15 per cent at £59.9m (£51.9m).

Total group turnover of £65.6m (£57.6m) included £5.69m from discontinued operations. This reflected the contribution from Ricardo Technical Communications, the group's publishing division, sold in June.

Exceptional items amounted to £967,000, including a £300,000 write-off of goodwill on the disposal and a £660,000 property write-down.

The group said it had maintained a strong balance sheet in spite of £5.4m of capital expenditure, £2.8m of depreciation and £1.6m of research and development costs.

Net borrowings at the end of the year were £3.3m (£2.6m) and gearing was 15 per cent (13 per cent).

Earnings per share were 4.2p (3.6p).

The proposed final dividend is 3.8p for an unchanged total of 5.7p.

Britannia improves to £28.5m

ALTHOUGH it had to make heavier provisions in the first half of 1993, Britannia Building Society, the ninth largest in the UK, lifted pre-tax profits from £16.8m to £28.5m.

Gross lending was 13 per cent up on the same period last year and ahead of expectations in volume and market share, said Mr John Heaps, managing director.

Provisions for losses on loans and advances were up £7.7m to £21.8m, but were offset by an increase in net income from £83.3m to £100.3m, and a reduction of £2.5m in management expenses.

Net income comprised £76.1m (£62.5m) net interest receivable and £24.1m (£20.8m) other income, including insurance sales and estate agency.

Provisions for non-performing loans amounted to £34.1m, equivalent to 47.4 per cent of the total mortgage loss provision of £71.9m for 1993.

QSP shares fall on 37% decline

By Alan Cane

PROFITS at Quality Software Products, the Gateshead-based accounting software company slipped sharply below budget in its first six months after going public in March this year. The shares fell 35p to 528p.

Profits before tax for the six months to end-June were £143,000 compared with £227,000, a decline of 37 per cent. Turnover rose 10 per cent to £6.61m (£6m).

Earnings per share were 2.1p basic and 2p fully diluted, against 3.9p and 3.3p respectively. No interim dividend is proposed but a final is planned.

Mr Alan Mordain, chairman, explained that the costs of developing QSP's new Universal Olas accounting package had proved higher than expected, while a number of customers had held back from further investment in the traditional Olas system in anticipation of the new product, depressing budgeted results by about £1.5m. There were also budgeted costs of about £850,000 in preparation for the market exploitation of Universal Olas.

The core general ledger module was released earlier in the year and sales and purchase ledger modules are expected in November. The extra expenditure was incurred in modifying Universal Olas to run on a broad range of computer designs. Mr Mordain said it is now the most open accounting system available.

Analysts expect profits before tax of about £0.5m for the year. The share price continues to be supported by expectations that the company will return pre-tax profits of about £2.8m in 1994 as orders for Universal Olas pick up.

Mr Mordain said he expected the some 50 customers for the system by the end of next year, compared with four at present.

Parkdean Leisure lifts holiday weeks sold by 7%

By Maggie Urry

PARKDEAN Leisure, the holiday park operator which is coming to the stock market next month, increased the number of holiday weeks sold in its parks in the 1993 summer season by 7 per cent, with caravan and retail sales rising by a smaller percentage.

The figure was revealed in the group's pathfinder prospectus which was issued yesterday to institutional investors at the start of its marketing campaign for its share placing to such investors.

The placing is expected to raise about £6m and value the company at between £13m and £15m.

The prospectus shows that Parkdean's operating profits have risen from £789,000 in the year to November 1990 to £1.3m in 1992. A profit forecast for the current year will be contained in the final prospectus.

Parkdean incurred an operating loss of £439,000 in the six months to June 2, but said the seasonality of the holiday business meant a loss in the first half was normal.

The prospectus also reveals that Parkdean has appointed Mr Ralph Iley as non-executive chairman. Mr Iley, formerly a managing director of Cookson Group is still a non-executive director of Cookson.

The placing is intended to enable Parkdean to repay debt, which amounted to nearly £6m in the 1992 balance sheet, and give it a capital base from which it can expand.

The company says it believes it can increase the number of parks under ownership and management from the current seven, without a significant increase in central overheads. No acquisitions are under consideration at present.

Parkdean also believes it can increase profits from acquisitions. The document says that operating profits from its Grannie's Heilan' Hame holiday park, bought in 1989, rose 70 per cent between 1990 and 1992.

Of the group's turnover of £8.51m in 1992, 41 per cent came from hiring caravans, chalets and apartments and from touring charges for caravans and tents; 14 per cent came from sales of caravans and chalets and 45 per cent from retail activities such as bars, amusement arcades and shops.

The prospectus says the group's fortunes depend on high occupancy rates which lead to high retail income; in the 1992 season this was 77 per cent.

Pricing is expected on October 6. The sponsor is Charterhouse Tilney.

Donelon Tyson falls to £0.44m

DONELON TYSON, the Cheshire-based building and civil engineering company, reported pre-tax profits for the half year to June 30 sharply reduced at £439,000, against £1.02m.

The company said that apart from private housing the "much talked about recovery has not evidenced itself across the construction sector". The company continued to operate in very competitive markets.

Turnover rose £1.63m to £34.5m. Net interest payments fell from £663,000 to £125,000. Earnings per share came out at 0.66p (1.55p).

The directors said that for the rest of the year while the company continued to benefit from the spread of its activities the core construction businesses would have to continue to contend with difficult markets in the year ahead.

COMMODITIES AND AGRICULTURE

Grain forecast raised again

By Deborah Hargreaves

THE INTERNATIONAL Wheat Council has increased its estimate for this year's world grain harvest by 7m tonnes to 1.39bn tonnes from its August forecast of 1.383bn, which was itself up 10m tonnes from a month earlier. Most of the latest increase was attributed to coarse grains such as maize and barley.

In its latest monthly report the IWC forecasts wheat production at 575m tonnes, up from 562m tonnes the previous year and an increase of 2m tonnes from its forecast last month. The expected decline in the wheat harvest in the European Community, central Europe and the US is expected to be more than offset by bigger crops in Argentina, Canada, China and Russia.

World production of coarse grains is estimated to be 5m tonnes higher than last month's prediction at 815m tonnes – but this marks a drop from 881m tonnes in 1991-1992.

The decline in the coarse grains harvest is largely the result of disastrous floods in the US corn belt. But India, Russia and Ukraine are now forecast to produce more maize than had been expected.

The IWC pointed to some quality problems with this year's wheat because of wet harvest conditions in France, Germany and the UK as well as early frost in Canada. Rain also delayed US planting.

Curragh's troubles bode ill for Yukon mining

By Bernard Simon in Toronto

HOPES FOR the revival in the near future of lead and zinc mining in Canada's Yukon territory have faded with the collapse of Curragh, the Toronto-based base metals producer.

An Ontario court this week appointed Deloitte Touche as interim receivers for Curragh's Faro and Sa Dena Hes mines in the Yukon, after the beleaguered company failed to find an outside investor willing to inject fresh equity.

Curragh is continuing its search for a backer. Its chairman, Mr Clifford Frame, has recently been in Europe meeting prospective partners. Rumours in Toronto suggest that he has had discussions with, among others, the Kuwaiti government. Talks earlier fell through with two Korean companies that had bid for a a 50 per cent stake.

Low zinc prices and Curragh's financial problems forced the closure of the Faro mine last April. Faro's output totalled 88.7m lb of zinc and 51.2m lb of lead in the first three months of this year. Sa Dena Hes, which is close to the Yukon-British Columbia border, has been shut since last December.

Curragh's problems have also stalled development of the new Grum pit at Faro. The company had been seeking C$29m (£14.5m) from the Yukon government to complete the pit.

A Yukon government official said, however, that the authorities "are not going to pump more money into the mine just to reopen it".

The two mines are the cornerstone of the Yukon economy, employing over 1,300 people at their peak, and supporting many of the territory's small businesses.

A spokesman for Curragh's unsecured creditors said that the long-term outlook for the mines was "fairly reasonable", depending on zinc prices – Faro needs a zinc price of about 50 cents a lb to break even, 25 per cent above the prevailing market level.

Norway's Gullfaks South field declared commercial

By Karen Fossli in Oslo

STATOIL, THE Norwegian state oil company, yesterday declared the Gullfaks South oil and gas field commercial and said it would lodge a development plan for the field late next year.

Gullfaks South has estimated gas reserves of 60bn cubic metres and oil reserves of 125m barrels. It will cost an estimated NKr14bn (£1.3bn) to develop, according to Statoil.

Production is likely to be from a wellhead platform, along with a new process platform for gas, linked to the existing Gullfaks A platform. The field will use oil processing capacity on Gullfaks A, which will become available towards the end of the decade. In this case, it will come on stream in 1998 with annual gas output of 5bn cu m.

Statoil said an alternative plan under consideration called for a record length horizontal well to be drilled from the Gullfaks A platform, which is situated 10km away from Gullfaks South. This would enable oil from the field to come on stream earlier than gas output and would accordingly boost profitability while providing an early return on investment. If this plan is chosen, oil production could theoretically and technically come on stream during 1995.

However, the field has a highly fractured, complex reservoir so a 10 km long horizontal well would be a major challenge. Statoil's longest existing well, on the Statfjord field, is 7km.

Statoil said gas from Gullfaks South was being considered as a source of supply for a gas-fired power generation plant to be built by Britain's National Power. The supply contract calls for annual deliveries of 2.2bn c m a year from the second half of the 1990s.

Yemeni oil industry enters a new era

Eric Watkins on a development that has boosted the county's output by two thirds

CANADIAN Occidental Petroleum yesterday boosted Yemen's oil production by 60 per cent with the opening of its new fields in Masila.

Brought on stream after an accelerated programme of development, Canadian Oxy's 120,000 barrels a day will increase Yemen's total output to just over 300,000 b/d. But more importantly, the new fields may open the way to further discoveries in coming months.

Yemen's oil was first discovered in 1984 by the Dallas-based Hunt Oil Company, with further finds in 1986 by the former Soviet company, Technoexport.

Taken together, the two sets of finds suggested the presence of a north-south oil trend and prompted Canadian Occidental to bid for a concession of its own in 1987.

Concentrating its exploration efforts in the north-west corner of its 37,200 sq km concession area, Canadian Oxy began drilling in September 1990 and struck oil with its first well in January 1991.

By December 1991, the company had drilled 14 wells and declared commerciality with an estimated 235m barrels of recoverable oil. Since then it company has drilled another 37 wells and increased its estimate of recoverable reserves to 460m barrels.

Following its declaration of commerciality, the company began an accelerated construction programme to develop its production and export facility. In addition to the 51 wells and 55km of oil-gathering pipelines, Canadian Oxy has now constructed a central processing facility to purify and blend the oil, a 138km pipeline to the Gulf of Aden and an export terminal at Ash-Shihr with a loading rate of 60,000 barrels an hour.

According to the production sharing agreement, the Yemen government will take 70 per cent of the liftings and Canadian Oxy 30 per cent. That shareout will sharply increase the country's export earnings. Prior to the new production levels, the government was understood to receive about 90,000 b/d from the Hunt field, of which 65,000 were used for domestic consumption. Added to the remaining 25,000 b/d per day, the new production figures from the Canadian Oxy field should give the government roughly 109,000 b/d day for export.

The increased production will be a boon to Yemen's sagging economy and political structure. Since the Gulf War unemployment has stood at 38 per cent and annual inflation at 100 per cent. In October 1991 and again in December 1992, there were protest riots which left over 100 dead and many more injured.

To maintain optimism, the government has long played up news of the country's oil potential and Canadian Oxy production will provide some justification for the its claims.

Apart from the immediate rise in production figures, however, the Canadian Oxy discoveries have created a sense of optimism about further oil potential in the country. So far the company has fully explored only about 20 per cent of its own concession area and has now stepped up the pace of exploration to the east and south of Wadi Masila. Mr Ray Irani, chairman of the boards of US and Canadian Occidental, has expressed optimism that more oil will be found in the concession area and in the country as a whole.

"With oil production now at 300,000 b/d and increasing in the future, the prospects for Yemen's hydrocarbons industry are bright," Mr Irani said.

That view is shared by other companies operating in the region, particularly Total, Clyde Petroleum, and Lasmo Oil (Aden), which hold concession areas adjacent to Canadian Oxy's. Indeed, Total's recent discovery of 12,000 b/d in block 10, just east of Wadi Masila, now suggests that there may be another trend running to the north-east through the Canadian Oxy concession into those of Clyde and Lasmo.

Mr Rod Makin, Lasmo's general manager, confirms the possibility of such a trend and is cautiously optimistic about his company's prospects regarding it. "We are very hopeful about our chances in the Hood block, which is on one of the oil pathways of Yemen. We think we are on a trend and it just depends how far the trend extends," he says.

Lasmo began drilling its first well on September 1 and preliminary results could be available within a few weeks. Mr Makin underlines the significance of the results with care. "This well and our next could be the turning point by proving the extension of the trend into the north-east," he says.

Mr Peter Bradley, general manager of Clyde, could not agree more. "Yes", he says, "the big question now is how far the trend extends. In that regard the Lasmo wells are important and could be most encouraging for us. They would automatically tell us that similar structures are in our fields. We have our fingers crossed."

According to Mr Bradley, Clyde will begin its exploratory drilling on November 1 this year.

"Clyde is reasonably optimistic, but we don't want to overplay it," he says. "This still is the exploration business and the next six to nine months will be a very intersting time for us."

Exploring for oil in Yemen is indeed risky. Most production sharing agreements now call for the collection of seismic data from at least 1,000km of survey lines and the drilling of three exploratory wells, all within 30 months. Elsewhere, according to Mr Bradley, the time frame for exploration is normally three or four times as long. Thus, in Yemen, companies are under considerable pressure to produce quickly.

That pressure is increased by the size of concession areas and the nature of their terrain. With concession areas ranging from 1,200 sq km to 37,200 sq km, the odds are very clearly against exploration teams finding anything at all. As Mr Bradley put it, "no company can possibly cover its entire concession area". Thus, companies have to select carefully even before undertaking their seismic surveys.

Because of the difficulties of the terrain, such surveys themselves can be costly and the results hard to interpret.

Clyde, Lasmo, and Canadian Occidental are all operating on a plateau deeply incised by meandering Wadis. That means seismic data must frequently be collected by specialised vehicles – often helicopters – which can send costs as high as US$13,000 a kilometre. The variable nature of the terrain, moreover, can affect the direction of seismic vibrations and produce misleading data. And, with drilling rigs estimated to cost between US$2m and US$6m each, such mistakes can be very costly.

The odds against discovering oil in Yemen are therefore high and, not surprisingly, the list of dry wells is growing. But the achievement of Canadian Oxy is undeniable and has turned the eyes of oil men in new directions. "One thing is for sure", says Mr Bradley. "From block 10 eastwards is now really wildcat country. It is so wide open."

Oil ministers of the Organisation of Petroleum Exporting Countries gather in Geneva tomorrow with the oil price languishing just above $16 a barrel despite this week's upheavals in Russia, writes David Lascelles, Resources Editor.

Analysts say that the ministers will have to hammer out an agreement to hold production at around 24.5m barrels of oil a day – slightly less than the third quarter peak but 920,000 barrels above the official ceiling – if they are to provide the market with a firm underpinning.

However, this meeting has been preceded by less kite-flying than usual, and analysts say the outcome is hard to call. Although the final quarter always produces a rise in demand, with the onset of winter in the northern hemisphere, there has been little indication that Opec is getting to grips with its over-production problems.

The meeting will also have to address the question of how to re-integrate Kuwaiti output into the production ceiling, and consider the return of Iraq to the Opec fold.

Agreement in sight on PNG gold mine

By Kenneth Gooding, Mining Correspondent

RTZ, THE world's largest mining group, and the Papua New Guinea government have patched up their differences over how the US$609m Lihir Island gold project in PNG should be financed.

It is now suggested that all the present partners – including Nuigini Mining, the Battle Mountain Gold subsidiary,as well as RTZ and the government – pool their shareholdings in a new company, tentatively called Lihir Gold, which would be floated on the Australian stock exchange.

Venezuelan Goldfields, a small Canadian explorer, would be involved and the state-owned Malaysian Mining Corporation would be invited to take 20 per cent of the floated vehicle.

Mr Maskett Iangalio, PNG minister of mining and petroleum, told his parliament yesterday that by injecting US$250m to $400m in equity, project borrowings would be reduced to a manageable level and early dividends could be paid.

Lihir has one of the biggest gold deposits outside South Africa, 40m ounces. Mr Iangalio said, in order to preserve PNG's interest in the venture at 30 per cent, local investors would be given preferential treatment in the proposed floatation.

Indian tea output recovers

By Kunal Bose in Calcutta

IN SPITE of Assam, India's largest tea growing state, suffering a setback in production in June and July, the country's tea output during the first seven months of this year rose by 29.45m kg to 355m kg.

Excessive rains and a sudden spell of cold weather affected plucking of tea leaves in Assam, industry officials said.

At 51.44m kg Assam's July tea production was down by 2.13m kg from the corresponding month of 1992. The shortfall in production in the previous month amounted to 1.07m kg. However, total Assam production of 173.17m kg up to July was 2.85m kg more than in the same period last year.

The quality of Assam tea this season is generally satisfactory. Despite floods, West Bengal recorded a production improvement of more than 12m kg at 78.39m kg over the first seven months of 1993. Darjeeling's increase of nearly 1m kg to 6.04m kg was regarded as particularly remarkable. South India's contribution to the production increase in the period was 14.44m kg, Tamil Nadu's 62.74m kg, Kerala's 36.55m kg and Karnataka's 2.44m kg.

Industry officials said the trend of plucking up to the end of October would decide whether India returned to the 1991 production level of 742m kg. Last year the country's tea production suffered a major setback to 704m kg, largely because of severe drought in South India.

'Poll virus' threatens Pakistan's cotton

By Farhan Bokhari in Islamabad

ELECTION VIRUS could be one of the bugs to hit Pakistan's cotton crop this year.

According to the latest assessments by the country's top cotton experts, the crop is likely to exceed 11.5m bales, coming close to the government's 12m bale target. However, farmers in the cotton belt around the city of Multan in Southern Punjab as well as in other districts of the province, have spent large amounts of money to support their candidates in the October 6 general election, leaving them with tight budgets for pesticides.

Mr Zahoor Ahmed, head of Pakistan's leading cotton research station in Multan, says pesticide dealers have reported a 10 to 20 per cent drop in sales. "The question is, how much will 'election virus' affect your production. People are short of money for pesticides due to the elections," he says. Nevertheless Mr Ahmed is urging farmers to intensify vigilance during the next month or so, to protect their crops against possible attacks by the "boll worm" virus.

Crops have generally been good this year, after 1992's devastation, caused by heavy rainfall, floods and an attack by the leaf curl virus. In that year just over 9m bales were produced, 3m short of target.

● The US cotton crop is likely to be 17.65m bales, below the 17.9m bales projected this month by US Department of Agriculture, according an executive with National Cotton Council of America, reports Reuter from Scottsdale, Arizona.

"That's good news because it means our carryover will be smaller," said Mr Mark Lange, director of economic services, told a NCC board meeting.

The USDA put 1993-94 starting stocks at 4.7m bales, up from 3.7m at the beginning of the 1992-93 season. It forecast the carryover at the end of this season at 6m bales.

Total US mill use for 1992-93 of 10.26m bales was up 640,000 bales from the previous year. At best, Mr Lange said, 1993-94 mill consumption would to reach 10.3m bales (in line with the USDA estimate) or remain even with last year.

WORLD COMMODITIES PRICES

MARKET REPORT

After briefly testing resistance at $360 a troy ounce the London GOLD prices closed at $357.25, up $3 on the day. Traders attributed the rally to concern about the situation in Russia, but one analyst commented: "The market is basically bearish....The Russian rallies [on Wednesday and yesterday] have just added to the disappointment because they have been so short and have had no follow-through". At the London Metal Exchange COPPER prices slipped further as the cash/three months discount widened from $11.50 to $18.50 a tonne in response to freer availability of metal for immediate delivery. NICKEL prices rallied smartly in the afternoon on news that Inco of Canada was to discuss production cuts and cost cutting measures with unions. The three months price peaked at $4,370 a tonne before easing on profit-taking to end at $4,340, still up $40. At the London Commodity Exchange both COCOA and COFFEE futures reversed early falls, the former ending little changed and the latter with modest gains in nearby positions.

Compiled from Reuters

London Markets

SPOT MARKETS		
Crude oil (per barrel FOB)(Nov)		+ or -
Dubai	$13.95-4.00z	-0.14
Brent Blend (dated)	$15.62-5.64	-0.08
Brent Blend (Nov)	$16.18-6.21	-0.09
W.T.I. (1 pm est)	$17.49-7.51z	-0.04
Oil products (NWE prompt delivery per tonne CIF)		+ or -
Premium Gasoline	$182-184	-1
Gas Oil	$168-169	-2
Heavy Fuel Oil	$80-82	
Naphtha	$148-150	+0.5
Petroleum Argus Estimates		
Other		+ or -
Gold (per troy oz)♣	$357.25	+3.0
Silver (per troy oz)♣	413.50c	+5.5
Platinum (per troy oz)	$362.00	+1.0
Palladium (per troy oz)	$124.25	+1.25
Copper (US Producer)	87.0c	
Lead (US Producer)	35.50c	
Tin (Kuala Lumpur market)	10.85r	+0.03
Tin (New York)	204.5c	+3.0
Zinc (US Prime Western)	62.0c	
Cattle (live weight)†	121.29p	+2.14*
Sheep (live weight)†♣	81.17p	+0.81*
Pigs (live weight)†	85.76p	+1.02*
London daily sugar (raw)	$260.5	+1.5
London daily sugar (white)	$284.5	-0.5
Tate and Lyle export price	£282.5	+1.0
Barley (English feed)	Unq	
Maize (US No. 3 yellow)	£120u	
Wheat (US Dark Northern)	£165.5u	
Rubber (Oct)♥	58.00p	
Rubber (Nov)♥	58.25p	
Rubber (KL RSS No 1 Jul)	205.0p	-0.5
Coconut oil (Philippines)§	$420.0v	+18.5
Palm Oil (Malaysian)§	$345.0v	+2.5
Copra (Philippines)§	$285.0	-5.0
Soyabeans (US)	£194.0	+1.0
Cotton "A" Index	55.10c	
Wooltops (64s Super)	327p	+1

£ a tonne unless otherwise stated. p-pence/kg. c-cents/lb. r-ringgit/kg. z-Nov v-Oct/Nov u-Oct t-Oct/Dec x-Aug/Sep ♥London physical. §CIF Rotterdam. ♣ Bullion market close. m-Malaysian cents/kg. ♣Sheep prices are now live weight prices * change from a week ago, provisional prices.

SUGAR - LCE ($ per tonne)			
White	Close	Previous	High/Low
Dec	273.70	273.50	273.70 272.00
Mar	276.80	276.30	276.80 275.00
May	279.80	279.80	279.80 277.60
Aug	283.50	284.10	283.50 282.20
Oct	277.40	276.30	277.40 276.10

Turnover 326 (1650) Paris- White (FFr per tonne): Dec 1670.71 Mar 1695.47

CRUDE OIL - IPE $/barrel			
	Latest	Previous	High/Low
Nov	16.27	16.26	16.28 15.90
Dec	16.40	16.51	16.50 16.25
Jan	16.66	16.72	16.66 16.50
Feb	16.77	16.90	16.84 16.64
Mar	17.01	17.04	17.01 16.87
Apr	17.10	17.16	17.10 17.04
May	17.22	17.22	17.30 17.16
Jun	17.35	17.30	17.40 17.29
Jul	17.40	17.52	17.47 17.40
IPE Index	16.49	16.55	

Turnover 34750 (45457)

GAS OIL - IPE $/tonne			
	Close	Previous	High/Low
Oct	164.00	165.50	164.50 162.75
Nov	165.25	166.75	165.75 163.75
Dec	166.00	168.00	166.75 164.75
Jan	167.00	168.50	167.75 165.75
Feb	167.00	168.75	165.75
Mar	165.75	167.25	166.00 164.25
Apr	164.50	165.50	165.00
May	163.00		
Jun	160.75	161.50	160.75 160.00

Turnover 16240 (18060) lots of 100 tonnes

COCOA - LCE £/tonne			
	Close	Previous	High/Low
Sep	892	894	893
Dec	922	922	925 902
Mar	946	949	950 931
May	954	957	959 939
Jul	964	967	969 949
Sep	964	965	967 959
Dec	970	971	973 966
Mar	974	973	976 967
May	978	979	978 975
Jul	984	986	

Turnover 6207 (21323) lots of 10 tonnes

ICCO indicator prices (SDRs per tonne). Daily price for Sep 22 929.22 (928.24) 10 day average for Sep 23 908.70 (904.78)

COFFEE - LCE $/tonne			
	Close	Previous	High/Low
Sep	1325	1295	1325 1320
Nov	1300	1270	1292 1248
Jan	1274	1263	1285 1242
Mar	1262	1249	1267 1220
May	1257	1242	1264 1240

Turnover: 2929 (5974) lots of 5 tonnes

ICO indicator prices (US cents per pound) for Sep 22 Comp. daily 71.47 (71.17) 15 day average 72.00 (72.02)

POTATOES - LCE £/tonne			
	Close	Previous	High/Low
Apr	85.7	85.4	85.5 85.0

Turnover 69 (103) lots of 20 tonnes.

FREIGHT - LCE $10/index point			
	Close	Previous	High/Low
Sep	1443	1435	1445 1440
Oct	1485	1477	1490 1484
Nov	1490	1480	1490 1486
Jan	1477	1470	1480
Apr	1483	1478	1485
BFI	1434	1421	

Turnover 138 (278)

GRAINS - LCE £/tonne			
Wheat	Close	Previous	High/Low
Nov	102.10	102.45	102.50 101.10
Jan	103.95	104.30	104.00 103.95
Mar	105.95	106.30	105.70 105.95
May	108.15	108.55	108.00 108.15
Barley	Close	Previous	High/Low
Sep	102.70	101.00	102.70 101.00
Jan	104.80		105.00 104.80
Mar	106.90		108.75 106.70

Turnover: Wheat266 (257) Barley 83 (1)

Turnover lots of 100 Tonnes.

FRUIT & VEGETABLES

Crunchy English, Dutch and Belgian conference pears are this week's best fruit buy at 25-30p a lb (25-30p). Italian black seeded grapes are also good value at 60p-£1.50 a lb (60p-£1.20). Bananas from Central and South America, are 40-60p a lb (40-50p). Cabbages have benefited from ideal growing conditions. English and Dutch white and Dutch red cabbages are 20-30p a lb (20-30p). Dutch savoy cabbages are also 20-30p a lb (20-40p). This week's best salad buy is English celery at 30-45 a head (30-45p). Other good salad buys are English beetroot at 20-35p per 12 oz bunch. NB last week's prices shown in brackets.

LONDON METAL EXCHANGE (Prices supplied by Amalgamated Metal Trading)						
	Close	Previous	High/Low	AM Official	Kerb close	Open interest
Aluminium, 99.7% purity ($ per tonne)						Total daily turnover 40,107 lots
Cash	1100.5-1.5	1101-02		1097-8		
3 months	1119-20	1120-21	1121/1113	1118-6	1120-1	246,317 lots
Copper, Grade A ($ per tonne)						Total daily turnover 72,150 lots
Cash	1743.5-4.5	1735-57	1756/1756	1757-8		
3 months	1762-3	1767-68	1772/1765	1759-70	1761-2	164,839 lots
Lead ($ per tonne)						Total daily turnover 5,924 lots
Cash	368.5-9.5	368-69	363.5	363.25-4.0		
3 months	372.5-3.0	382-83	382/372	375-5.5	372-3	22,346 lots
Nickel ($ per tonne)						Total daily turnover 5,572 lots
Cash	4315-20	4240-45	4226	4225-6		
3 months	4335-40	4290-95	4370/4285	4270-5	4330-40	55,189 lots
Tin ($ per tonne)						Total daily turnover 2,404 lots
Cash	4565-80	4405-15		4430-5		
3 months	4600-5	4450-60	4610/4420	4475-80	4555-60	10,787 lots
Zinc, Special High Grade ($ per tonne)						Total daily turnover 8,705 lots
Cash	877.5-8.5	879-80	880	880-80.5		
3 months	896-9	896-97	900/890	897-7.5	895.5-1.0	81,017 lots

LME Closing £/$ rate: SPOT: 1.5085 3 months: 1.4987 6 months: 1.4884 9 months: 1.4824

LME AM Official £/$ spot rate 1.5159

LONDON BULLION MARKET (Prices supplied by N M Rothschild)		
Gold (troy oz)	$ price	£ equivalent
Close	357.00-357.50	
Opening	353.30-353.70	
Morning fix	353.75	233.037
Afternoon fix	357.25	236.377
Day's High	358.25-358.60	
Day's Low	353.00-353.50	

Loco Ldn Mean Gold Lending Rates (Vs US$)			
1 month	2.70	6 months	2.63
2 months	2.66	12 months	2.63
3 months	2.64		

Silver fix	p/troy oz	US cts equiv
Spot	268.15	408.80
3 months	270.00	409.95
6 months	273.30	413.15
12 months	280.90	417.40

GOLD COINS	$ price	£ equivalent
Krugerrand	353.00-356.00	231.00-234.00
Maple leaf	365.00-370.35	
New Sovereign	83.50-86.50	55.00-57.00

TRADED OPTIONS				
Aluminium (99.7%)	Calls		Puts	
Strike price $ tonne	Oct	Jan	Oct	Jan
1100	36	51	13	21
1125	14	37	26	31
1150	6	26	43	43
Copper (Grade A)	Calls		Puts	
1800	20	60	71	82
1850	8	32	108	114
1900	3	20	133	151
Coffee LCE	Nov	Jan	Nov	Jan
1200	109	123	29	60
1250	78	97	45	83
1300	54	76	74	113
Cocoa LCE	Dec	Mar	Dec	Mar
825	103	148	9	24
850	83	129	14	30
875	66	109	21	36
Brent Crude	Nov	Dec	Nov	Dec
1650		36	61	-
1700	16	35		
1750	7	28	-	

New York

GOLD 100 troy oz.; $/troy oz.			
	Close	Previous	High/Low
Sep	358.0	353.9	355.0 355.0
Oct	358.1	354.1	359.0 354.2
Nov	359.0	354.8	0 0
Dec	360.0	355.6	361.3 355.1
Feb	361.7	357.2	363.2 358.6
Apr	363.4	358.8	364.0 360.4
Jun	365.0	360.4	367.5 365.4
Aug	366.7	362.1	0 0
Oct	368.4	364.4	0 0

PLATINUM 50 troy oz; $/troy oz.			
	Close	Previous	High/Low
Oct	363.2	362.3	364.0 360.5
Nov	363.0	362.0	0 0
Jan	363.5	362.5	365.0 360.5
Apr	364.5	363.5	0 363.0
Jul	365.5	364.5	0 0
Oct	366.5	365.4	0 0

SILVER 5,000 troy oz; cents/troy oz.			
	Close	Previous	High/Low
Sep	415.8	404.6	414.5 415.0
Oct	416.4	404.7	0 0
Nov	418.0	405.4	0 0
Dec	418.5	406.6	419.0 407.5
Jan	419.6	407.1	0 0
Mar	422.7	410.0	423.0 414.0
May	425.7	413.0	422.0 413.5
Jul	428.6	414.6	0 0
Sep	431.2	419.2	427.5 427.5
Dec	435.7	423.6	432.0 426.0

HIGH GRADE COPPER 25,000 lbs; cents/lbs			
	Close	Previous	High/Low
Sep	77.00	77.45	77.75 77.25
Oct	77.20	77.65	77.75 76.90
Nov	77.30	77.65	0 0
Dec	77.45	78.10	78.40 77.40
Jan	77.70	78.35	78.00 77.70
Feb	78.00	78.50	0 0
Mar	78.20	78.85	78.80 78.10
Apr	78.40	79.05	0 0
May	78.65	79.20	79.70 78.70
Jun	78.90	79.50	0 0

CRUDE OIL (Light) 42,000 US galls $/barrel			
	Latest	Previous	High/Low
Nov	17.36	17.58	17.61 17.26
Dec	17.53	17.68	17.79 17.43
Jan	17.73	17.86	17.92 17.61
Feb	17.93	18.05	18.08 17.77
Mar	18.10	18.20	18.25 18.00
Apr	18.24	18.33	18.40 18.16
May	18.40	18.44	18.54 18.40
Jun	18.54	18.56	18.54 18.46
Jul	18.77	18.76	18.77 18.62
Aug	18.89	18.85	18.89 18.70

HEATING OIL 42,000 US galls, cents/US galls			
	Latest	Previous	High/Low
Oct	53.30	53.09	53.35 52.40
Nov	54.00	53.90	54.15 53.20
Dec	54.75	54.75	54.85 54.00
Jan	55.15	55.30	55.25 54.50
Feb	55.25	55.50	55.25 54.75
Mar	54.40	54.70	54.50 54.00
Apr	53.25	53.60	53.25 53.00
May	52.40	52.80	52.50 52.45
Jun	52.00	52.10	52.15 52.15
Jul	52.00	52.50	52.10 52.15
Aug	52.80	52.75	52.40 52.40

COCOA 10 tonnes;$/tonnes			
	Close	Previous	High/Low
Dec	1174	1184	1198 1161
Mar	1206	1203	1225 1189
May	1217	1218	1236 1208
Jul	1229	1227	1240 1225
Sep	1259	1257	1252 1245
Dec	1281	1278	1273 1260
Mar	1289	1301	1296 1280
May	1289	1315	1296 1290
Jul	1321	1337	0 0

COFFEE "C" 37,500lbs; cents/lbs			
	Close	Previous	High/Low
Dec	81.65	78.55	81.80 78.15
Mar	83.55	80.55	84.00 80.80
May	85.00	81.80	85.00 81.75
Jul	86.00	83.15	86.00 83.00
Sep	87.40	84.40	0 0
Dec	88.25	85.85	89.00 89.00

SUGAR WORLD "11" 112,000 lbs; cents/lbs			
	Close	Previous	High/Low
Oct	9.74	9.73	9.81 9.67
Mar	10.29	10.33	10.38 10.25
May	10.36	10.46	10.44 10.36
Jul	10.34	10.54	10.52 10.35
Oct	10.46	10.58	10.55 10.46

COTTON 50,000 lbs; cents/lbs			
	Close	Previous	High/Low
Oct	57.15	57.00	57.20 56.65
Dec	58.08	58.68	59.20 58.01
Mar	59.86	60.16	60.50 60.10
May	60.54	60.65	61.05 60.70
Jul	61.35	61.50	61.75 61.10
Oct	61.73	61.40	61.75 61.65
Dec	61.80	61.69	0 0
Mar	62.75	62.85	62.05 61.90

ORANGE JUICE 15,000 lbs; cents/lbs			
	Close	Previous	High/Low
Nov	124.20	124.50	125.10 124.05
Jan	126.20	125.90	127.60 126.00
Mar	127.50	127.40	128.00 127.20
May	128.10	128.40	129.25 128.45
Jul	129.15	129.40	129.50 129.15
Sep	130.15	130.40	0 0
Nov	130.15	130.40	0 0
Jan	130.15	130.40	0 0

INDICES				
REUTERS (Base: September 18 1931 = 100)				
	Sep 23	Sep 22	mnth ago	yr ago
	1606.5	1599.6	1600.2	1577.2
DOW JONES (Base: Dec. 31 1974 = 100)				
	Sep 23	Sep 22	mnth ago	yr ago
Spot	120.10	119.90	122.89	117.48
Futures	125.85	126.68	126.70	115.21

Chicago

SOYABEANS 5,000 bu min; cents/60lb bushel			
	Close	Previous	High/Low
Nov	649/2	639/2	652/0 643/0
Jan	655/6	644/6	657/6 649/0
Mar	661/4	651/0	663/4 656/4
May	664/6	654/2	665/0 659/0
Jul	667/4	657/4	669/0 662/4
Aug	663/4	656/0	664/4 660/0
Sep	640/0	630/4	640/0 635/0
Nov	629/2	624/6	630/6 624/0

SOYABEAN OIL 60,000 lbs; cents/lb			
	Close	Previous	High/Low
Oct	24.42	23.53	24.47 23.98
Dec	24.57	23.68	24.58 23.98
Jan	24.45	23.69	24.54 23.95
Mar	24.51	23.70	24.52 23.98
May	24.37	23.69	24.40 23.80
Jul	24.25	23.50	24.25 23.60
Aug	24.00	23.42	24.10 23.80
Sep	23.75	23.15	23.80 23.45

SOYABEAN MEAL 100 tons; $/ton			
	Close	Previous	High/Low
Oct	198.5	197.2	199.5 197.2
Dec	198.5	197.3	199.8 197.2
Jan	199.0	198.1	200.4 198.1
Mar	200.1	200.0	201.2 199.5
May	201.4	201.5	202.5 200.5
Jul	202.0	202.0	203.5 202.0
Aug	202.0	202.0	203.0 202.0
Sep	202.0	202.2	202.0 202.0

MAIZE 5,000 bu min; cents/56lb bushel			
	Close	Previous	High/Low
Dec	245/6	245/0	249/2 247/0
Mar	255/0	254/0	257/0 254/4
May	260/2	259/6	261/6 259/6
Jul	262/4	262/4	264/6 262/0
Sep	260/6	260/2	262/2 259/6
Dec	256/4	255/2	257/4 256/0
Mar	257/0	255/0	257/4 257/0

WHEAT 5,000 bu min; cents/60lb-bushel			
	Close	Previous	High/Low
Dec	311/4	310/2	313/2 310/6
Mar	317/0	315/2	318/4 316/0
May	311/4	311/0	313/4 311/0
Jul	307/0	306/2	308/6 307/0
Sep	309/4	309/4	310/0
Dec	321/4	318/2	321/4 320/0

LIVE CATTLE 40,000 lbs; cents/lbs			
	Close	Previous	High/Low
Oct	73.950	73.325	74.175 73.225
Dec	74.450	73.650	74.450 73.825
Feb	75.350	75.175	75.450 75.125
Apr	76.200	75.125	76.250 75.125
Jun	72.825	72.575	72.850 72.575
Aug	71.200	71.300	71.650 71.200
Oct	72.200	72.100	72.200 72.000

LIVE HOGS 40,000 lb; cents/lbs			
	Close	Previous	High/Low
Oct	48.950	48.375	49.000 47.800
Dec	48.200	47.875	48.450 47.650
Feb	47.450	46.875	47.450 46.925
Apr	45.550	45.250	45.550 45.025
Jun	50.000	50.000	50.350 49.850
Jul	49.000	49.000	49.250 48.500
Aug	47.800	47.700	48.000 47.550
Oct	44.000	44.100	0 44.000

PORK BELLIES 40,000 lbs; cents/lb			
	Close	Previous	High/Low
Feb	51.900	50.775	52.000 50.850
Mar	51.500	50.500	51.850 50.800
May	52.500	51.450	52.600 51.400
Jul	51.600	50.900	51.650 50.300
Aug	51.225	50.025	51.225 50.250

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LONDON STOCK EXCHANGE

Equities resilient to new uncertainties

By Terry Byland, UK Stock Market Editor

NEW uncertainties in Russia, together with discouraging corporate developments at home, made for an erratic trading session in a London market which barely managed to hold on to the Footsie 3,000 mark yesterday. Firmness in the US dollar continued to help international stocks, where the pharmaceuticals sector held steady following the announcement of the Clinton administration's health care proposals. But among domestic stocks, both food retailers and brewery issues fell back sharply.

It was a day of rumour and counter-rumour of developments in Russia. Share prices opened in good form on overnight reports that President Yeltsin appeared to be consolidating his position, but early gains were reversed as unconfirmed rumours of clashes in Moscow reached London, usually to be as swiftly rejected.

At best, soon after the opening, the FT-SE 100 Index was nearly 11 points ahead at 3,018.4. However, the shine was quickly taken off the market by disappointing results from the domestic consumer sector, which realerted the stock market's concern over the uncertain recovery in trading performance by leading British companies.

The 3,000 level was briefly lost again, and it was left to firmness in UK bonds to help the equity market to a steadier tone at the close. Falling yields in the domestic bond markets have provided a base for the latest advance in share prices. The final reading showed the FT-SE 100 at 3,001.3 for a net loss of 6.2.

The damage to the consumer sector came largely from disappointing interim profits news from Guinness, which added to the market's unhappiness with discomforting comments at its meeting with City analysts. Food retailers suffered similar misfortunes after Wm Morrison Supermarkets confirmed pressures on the sector's profit margins. Share prices were rapidly marked down across the board, although traders said selling of the brewery issues was not heavy.

The market's confidence in the recovery in the domestic economy was challenged from other business sources in the UK. Halifax, a leading building society, described the housing market rally as "very delicately poised", and United Newspapers said economic recovery remained "patchy".

However, UK market analysts remained confident that the London stock market was showing great resilience, and succeeding in holding on to the Footsie 3,000 mark. Selling pressure was moderate, according to several leading securities traders, and bargain hunters always appeared ready to enter the market at its daily low points.

Lending support to such confidence was an upturn in equity dealing in the final hour of trading, when share prices rallied from earlier losses.

Seaq volume finally totalled 713.3m shares, a satisfactory level from the point of view of market profitability. On Wednesday, 670.7m shares were traded through the Seaq network, for a highly satisfactory retail worth of £1.56bn.

The London stock market is now about 3.7 per cent below its trading peak and has this week resisted further losses which would take it to important testing levels. Good levels of retail, or customer, business have indicated that the investment institutions appear to be rebalancing portfolios rather than selling equities.

TRADING VOLUME IN MAJOR STOCKS

Based on the trading volume for a selection of Alpha securities dealt through the SEAQ system yesterday until 4.30pm. Trades of one million or more are rounded down. † Indicates an FT-SE 100 Index constituent.

FT-SE Actuaries Share Indices — THE UK SERIES

FT-SE 100	FT-SE MID 250	FT-A ALL-SHARE
3001.3 -6.2	3430.3 +2.8	1492.98 -1.80

Account Dealing Dates

*First Dealings:		
Sep 6	Sep 20	Oct 4
Option Declarations:		
Sep 16	Sep 30	Oct 14
Last Dealings:		
Sep 17	Oct 1	Oct 15
Account Day:		
Sep 27	Oct 11	Oct 25

*New time dealings may take place from two business days earlier.

Guinness under pressure

SHARES in spirits and brewing group Guinness fell sharply, losing 7 per cent of their value after analysts lowered full year profits expectations after the group reported interim figures at the bottom end of market forecasts.

Profits fell 9 per cent to £320m, from £353m at the same stage a year earlier, and were accompanied by a warning of weak trading conditions in the second half. However, it was the news that the group was to make a £30m charge in its year-end results due to a contribution to its pension fund that stunned researchers. Guinness shares plunged 32 to 427p in hectic selling that saw volume jump to a hefty 17m as analysts cut their forecasts.

Lehman Brothers, a long term bull of the stock, was one of the day's big sellers after it downgraded its recommendation from a buy to a hold for the first time in four years. It reduced its full year profits estimate sharply, going from £953m to £890m. Explaining the day's performance of the stock, an analyst at the US investment house said: "We are looking to 1995 before we will see any improvement in earnings. The market does not have that kind of patience.

full text of the proposals at least a week ago and most investors with an interest in the area had read leaked US press reports. Both the text and the reports contained more detail than the President provided.

Specialists said companies would have to provide 15 per cent discounts to Medicare, the state programme for the elderly which accounts for a third of US sales, but this would in part be compensated by increased turnover. Mr Nigel Barnes of Hoare Govett said Glaxo could be expected to lose 4 per cent of US turnover but he had already factored in a 2 per cent fall.

Glaxo was steady at 642p but Wellcome was hit, its shares slipping 9 to 709p ahead of a conference on Sunday at which SmithKline Beecham may produce comparative data on a rival herpes drug to Wellcome's Zovirax.

SmithKline is due to announce details of the first head-to-head trial of its herpes treatment at a meeting in Copenhagen. SmithKline "A" shares eased to end the day 4 lower at 421p.

Tobacco and insurance group BAT Industries rebounded 10 to 472p after President Clinton made no reference to a tax on alcohol and cigarettes in his health care speech. However, Rothmans International, which is also overshadowed by worries that it might lose its Footsie status, shed 4 to 645p.

Drug stocks steady

The much heralded presentation by President Clinton on the proposed health care reforms proved something of a diluted cocktail, and the relevant UK stocks traded sideways after an initial market-maker-inspired lift at the start of trading.

Most analysts had seen the

Morrison tumbles

Disappointing figures from food retailer Wm Morrison Supermarkets, seen as the glamour stock in its field, sent the company's shares tumbling and prompted a sharp retreat in the sector, subsequently the worst performing area of the FT-SE 350 Index.

Interim profits at £38.2m were well below market forecasts. Analysts were particularly disappointed by the decline in margins from a company generally seen to improve margins even in difficult times. A cautious trading statement that seemed to signal further difficulties in the second half also played a part in damaging sentiment. The shares dropped 23 to 106p, as analysts downgraded full year figures. Robert Fleming reduced its forecast by £11m to £89m and warned: "Those who need performance over the next 18 months will not find it in this sector."

Mr Tony MacNeary at Natwest Securities cut his current year estimate by £8m to £92 and said: "Today's slump in the share price reflects the reality of the resurgence of stiff competition in the food market."

Figures from Morrison came two days after Tesco, one of the big three retailers, also produced disappointing numbers and revealed a decline in margins. Yesterday a wave of gloom swept over the sector as dealers reflected on both sets of figures. Tesco lost 11 to 198p, J. Sainsbury fell 20 to 420p, Kwik Save tumbled 20 to 686p and Asda shed 2¼ to 59¼p.

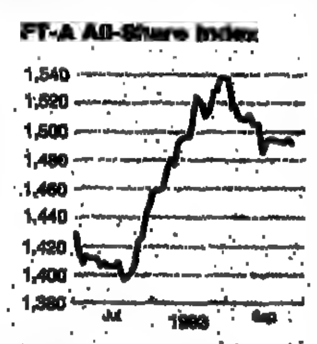
HSBC Holdings, a significant constituent of the Hong Kong stock market, rose 9½ to 689½p on follow-through buying after optimism that the International Olympic Committee would choose Beijing to host the 2000 games pushed the Hang Seng index higher the previous night.

Analysts said acceptance of a Beijing bid would be a sign that the West was prepared to forgive China on human rights issues.

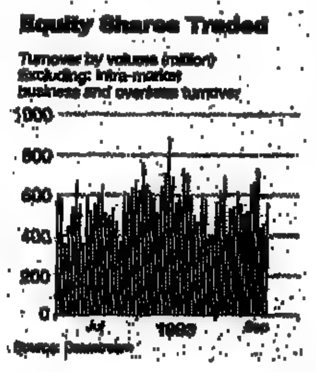
The Beijing argument spilled over to Cable and Wireless, which has a majority stake in Hong Kong Telecom. The shares also benefited from a big buy order in late trading and a bounce as the reaction to Vodafone's competitive attack on Mercury's one-2-one telephone service was considered overdone. Cable shares improved 8 to 861p while Vodafone eased 2¼ to 491¼p.

Sentiment from Guinness hit the rest of the brewing sector. Allied-Lyons fell 12 to 571p, while Grand Metropolitan, recommended yesterday by Lehman Brothers following a company visit, shed 6½ to 407½p.

The poor sentiment in Northern Foods that followed an analysts visit to the company earlier this week continued to drive the stock lower, losing 8 at 249p. Unigate retreated 12 to 385p in sympathy.



FT-A All-Share Index



Equity Shares Traded

Turnover by volume (million). Excluding: intra-market business and overseas turnover.

Reports of problems at Thorn EMI's Rent-A-Center stores in the US sent the shares into retreat as many dealers in the stock turned cautious. Thorn weakened 33 to 944p on 4.5m shares dealt, with traders reporting the availability of large lines of stock.

Sentiment was further damaged by a profits downgrade from BZW. The securities house trimmed its full year estimate for the year to March 1994 by £4m to £350m.

Builders merchants were boosted by encouraging results from Travis Perkins, which announced interim profits of £9.3m, against £5.2m previously, and net operating margins of 5.4 per cent, up from 3.2 per cent. Travis jumped 30 to 275p, while Wolseley rose 15 to 645p and Wickes 10 to 112p.

However, Pilkington fell 2½ to 161p, with UBS turning seller, arguing that the company had a stretched balance sheet and offered limited yield and income growth.

A profits downgrade from Smith New Court weakened Cookson Group, leaving the shares trailing 8½ to 193½p. Smith reduced its full-year figure by £5m to £82m saying it was cautious on the company's European markets.

Mirror Group Newspapers firmed a penny to 178p as shareholder approval of settlement of claims between the publishing group and private companies belonging to the late Robert Maxwell which paved the way for sale of the 54.8 per cent Maxwell stake in the company. After the market closed the administrator announced that the bidding for the stake sale via a book-building process would begin on Monday and all bids would be in by October 1.

United Newspapers gained 7 to 556p as the company announced improved half-year profits and the proposed sale of its Extel financial service.

Television group Anglia saw its shares rise 13 to 375p in spite of a sharp fall in first half profits to £2.12m from £5.17m.

In the stores sector, a profits warning from Laura Ashley hit the shares, and they closed 22 lower at 87p.

A firm US dollar helped a number of internationally traded stocks. RTZ, the world's biggest mining group, added 7 at 690p. However, Panmure Gordon believes the shares are expensive at that level and a short term sell.

Shell Transport firmed 6¼ to 644½p ahead of the OPEC meeting at the weekend.

Leather goods and clothing company Pittard slumped 12 to 47p, the biggest percentage fall in London stocks yesterday, in reaction to disappointing half year results.

The first day of trading in Shield Diagnostics, the biotechnology company, saw the new shares open at a premium of 6 but ease 2 to close at 116p. Some 5.5m shares were placed with institutions at 112p a fortnight ago.

MARKET REPORTERS:
Peter John,
Joel Kibazo.

■ Other statistics, Page 25

NEW HIGHS AND LOWS FOR 1993

NEW HIGHS (69).
AMERICANS (4) Loews, Sears Roebuck, Time Warner, US West, BREWERS (1) Grosvenor Inns, BLDG MATLS (5) Erith, Meyer, Sharpe & Fisher, Sheffield Ins., Travis Perkins, CONTG & CONSTRCN (8) Avonside, Bellway Homes, Barratt Dev., Crest Nicholson, Do. 5¾pc Pf., ... Shops, Sears, TEXTS (3) Alexandra Workwear, Lamont, Lister, TRANSPORT (3) BAA, Seacon, TNT, PLANTATIONS (2) Anglo-East, Williamson.
NEW LOWS (16).
BRITISH FUNDS (1) Tr. 14½pc 1994. CANADIANS (1) Breakwater Res., BREWERS (1) Guinness, BUSINESS SERVS (1) REA, CONTG & CONSTRCN (1) Donelon Tyson, FOOD RETAILING (4) Iceland, Morrison (Wm) Supermarkets, Do. 5¼pc Pf., Sainsbury (J), HEALTH & HSEHOLD (1) Seton Healthcare, HOTELS & LEIS (1) First Leisure, INSCE BROKERS (1) Steel Burrill Jones, MEDIA (1) Grindale, MISC (1) Pittards, OTHER INDLS (1) Kelsey Inds., STORES (1) Hampden.

FINANCIAL TIMES EQUITY INDICES

Ordinary Share hourly changes										
Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.00	High	Low
2334.9	2333.3	2332.1	2327.4	2327.3	2320.1	2317.2	2313.1	2312.3	2335.9	2301.4

Volume	Sep 23	Sep 22	Sep 21	Sep 20	Sep 17	Year ago
SEAQ Bargains	27,524	27,748	26,172	27,711	34,095	27,447
Equity Turnover(£m)†	-	1859.0	1130.5	995.3	1681.1	1417.8
Equity Bargains†	-	29,838	28,515	30,778	37,803	30,976
Shares traded (mil)†	-	560.4	471.3	444.2	730.3	623.6

† Excluding intra-market business and overseas turnover.

London report and latest Share index
Tel. 0891 123001. Calls charged at 36p/minute cheap rate, 48p at all other times.

LONDON SHARE SERVICE

BRITISH FUNDS — BRITISH FUNDS - Cont. — BRITISH FUNDS - Cont. — OTHER FIXED INTEREST

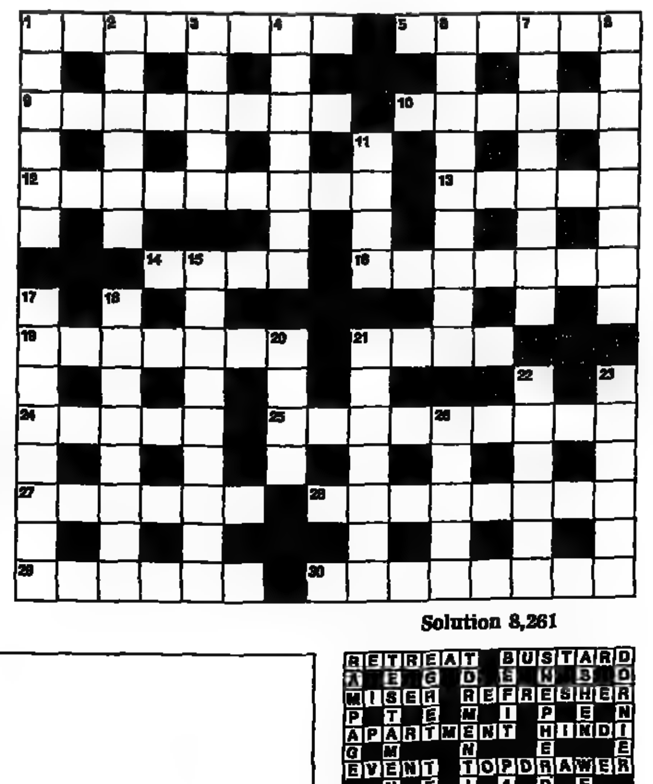
Continued on next page

CROSSWORD

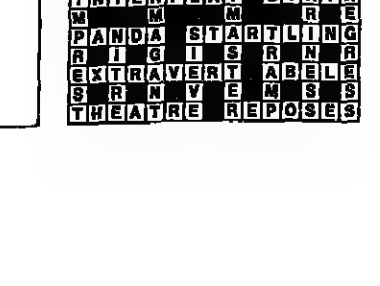
No.8,262 Set by GRIFFIN

ACROSS
1 Redhead always close to clergyman (8)
5 Kind, eccentric, Aunt Elizabeth's back (6)
9 An artificial handle? (8)
10 Now taking pip on train! (6)
12 Deviates cried, suffering blows? (9)
13 City I go round (5)
14 Hand pole to fool to return (4)
16 Supply one with 500 during show (7)
19 Corrupt salesman turns green (7)
21 Back up quiet drive (4)
24 Caught embracing sweetheart and punished (5)
25 Foreign Office rule about retirement is stranger (9)
27 Not allowed lease for market (6)
28 Fun to Ian is flying a jet (8)
29 Confectionery dips we introduced (6)
30 Doctor Laurel's mad about a brolly (8)

DOWN
1 Owner changed name to Fame (6)
2 Empty tin into tank (6)
3 Delivers less black telephones (5)
4 Fourth Good Book of Songs (7)
6 A bird in a borstal's out of place (9)
7 Confident of spreading fun holding a strike (8)
8 Threaten to stop incense (8)
11 Pack in upright cooking vessels (4)
15 Repair men sat around top-less for a change (9)
17 Broad covers up and promises to pay (8)
18 Half of mine, covered with butter, turned dark brown (8)
20 Two fellows raised it before, pet (4)
21 Do get by with a criminal record (7)
22 Require about ten to fit student (6)
23 Stop supporter going round for her (6)
26 Shot private (5)



Solution 8,261



JOTTER PAD

EQUITY FUTURES AND OPTIONS TRADING

DERIVATIVES traders appeared satisfied yesterday with a session which saw stock index futures moving erratically before closing with the December contract on the FT-SE 100 Index near to the fair value premium, writes Terry Byland.

Trading volume eased as, in the early part of the session at least, tensions over the political drama in Russia relaxed somewhat.

The session was punctuated by rumours, sometimes reported on the international newswires, of developments or impending developments in Moscow. Early trading saw the December contract move up to 3,041 before reversing to 3,015.

Switching into UK gilts from other European markets inspired a closing rally in equities and December closed at 3,025, a premium of 22 against cash, compared with 24 on the fair value premium which allows for dividend flows and the cost of carrying the underlying stocks until December. Volume dropped from 15,230 to 10,303 lots.

Business in traded options fell sharply, from 42,110 on Wednesday to 28,690 yesterday, with the FT-SE 100 option recording 8,600 contracts against 14,753. The Euro FT-SE option traded 5,477 contracts, while pressures from the equity market brought 1,475 deals in Guinness. J. Sainsbury saw 1,220 lots transacted as food retailer shares fell sharply, and Tarmac (1,062) was also active.

LONDON SHARE SERVICE

AMERICANS

	Notes	Price £	+ or -	1993 high	low	Mkt Cap£m	Yld Gr's
Abbott Labs		17xd	-⅛	20¼	15⅝	14,227	2.7
Allegheny & W.	♥	628p	+31	722p	399p	303.1	3.8
Amdahl		389p	+1	891p	294p	420.7	0.9
Amer Cyanamid		39¼	—	39⅝	31⅛	3,257	3.2
Amer Express		22⅝xd	+⅛	25¾	14⅞	10,868	3.0
Amer T & T		38⅝xd	—	43¼	33⅞	92,050	2.3
Ameritech		58	—	58⅛	46	25,394	4.3
Anheuser-Busch		30⅝	-⅛	41⅛	30⅛	8,338	3.0
BankAmerica		30⅞xd	-⅛	33⅛	27⅞	10,732	3.1
Bankers NY		51⅞xd	+1⅛	54⅛	42⅞	4,138	4.1
Bell Atlantic		41⅞	+¼	42⅞	32⅛	18,181	4.3
BellSouth		40½	—	41	32⅞	20,007	4.8
Bethlehem Steel	♥	8⅞xd	+⅛	13¼	8½	808.9	–
Bowater		1200pxd	+20	1682p	1189p	492.1	3.3
CPC		29⅞xd	-⅛	34⅝	28	4,449	2.9
California Engy		1149p	—	1479p	1066p	209.2	–
Chase Manhattan		24⅞xd	+⅛	24½	17⅞	3,765	3.4
Chrysler		30⅞xd	+⅛	32⅛	21¼	8,913	1.3
Citicorp		23¼xd	+⅛	23⅞	13⅛	8,681	–
Colgate-Palm		35⅞xd	+⅛	45⅞	32	6,838	2.7
Cont'l Bank		1672p	+14	1677p	1278p	1,669	2.4
Dana		35⅝xd	+¼	37⅛	29⅞	1,635	3.0
Data General		583p	+27	891p	527p	191.4	–
Decora Inds.	♥	119p	—	146p	104p	–	–
Dun & Brad		41⅛	+¼	42⅞	37⅛	7,332	4.0
Eaton		33⅛	+⅛	33⅛	25⅞	2,304	2.4
Echlin		18⅞xd	+⅛	20½	15⅛	1,103	2.5
FPL		26⅝xd	+⅛	27⅞	23¼	4,637	6.2
Ford Motor		36⅛xd	+⅛	39½	28⅞	17,741	7.9
Gen Elect		63⅝xd	—	67⅛	53⅞	54,538	2.7
General Host	♥	488p	-33	723p	458p	–	4.9
Gillette		38⅞xd	+¼	42⅞	31⅛	8,141	1.5
Hasbro		20⅞	—	20⅞	20⅞	1,819	0.8
Honeywell		22⅞xd	+⅛	26½	20⅞	4,833	2.6
Houston Inds.		31	—	33⅛	28¼	4,014	6.5
Ingersoll-Rand		24⅞xd	+⅛	25⅛	19⅛	2,611	1.9
Lockheed		43	+1	45⅛	35⅛	2,688	3.3
Lowe's		2773p	+148	2773p	1573p	2,020	0.6

CANADIANS

BANKS

BREWERS & DISTILLERS

BUILDING MATERIALS

BUSINESS SERVICES

CHEMICALS

CONGLOMERATES

CONTRACTING & CONSTRUCTION

ELECTRICALS

ELECTRICALS - Cont.

ELECTRICITY

ELECTRONICS

ENGINEERING-AEROSPACE

ENGINEERING-GENERAL

ENGINEERING-GENERAL - Cont.

FOOD MANUFACTURING

FOOD RETAILING

HEALTH & HOUSEHOLD

HOTELS & LEISURE

HOTELS & LEISURE - Cont.

INSURANCE BROKERS

INSURANCE COMPOSITE

INSURANCE LIFE

INVESTMENT TRUSTS

INVESTMENT TRUSTS - Cont.

هكذا من الأصل

LONDON SHARE SERVICE

INVESTMENT TRUSTS - Cont.

MERCHANT BANKS

METALS & METAL FORMING

MISCELLANEOUS

INVESTMENT COMPANIES

MEDIA

MOTORS

OIL & GAS

OIL & GAS - Cont.

OTHER FINANCIAL

OTHER INDUSTRIALS

PACKAGING, PAPER & PRINTING

PACKAGING, PAPER & PRINTING - Cont.

PROPERTY

STORES

STORES - Cont.

TELEPHONE NETWORKS

TEXTILES

TRANSPORT

WATER

SOUTH AFRICANS

PLANTATIONS

MINES

MINES - Cont.

GUIDE TO LONDON SHARE SERVICE

Company classifications are based on those used for the FT-Actuaries Indices and FT-Actuaries World Indices.

Closing mid-prices are shown in pence unless otherwise stated. Highs and lows are based on intra-day mid- prices.

Where stocks are denominated in currencies other than sterling, this is indicated after the name.

Symbols referring to dividend cover appear in the cover column (shown as a guide to yields and P/E ratios). Dividends and Dividend covers are published on Monday.

Market capitalisation shown is calculated separately for each line of stock quoted.

Estimated price/earnings ratios are based on latest annual reports and accounts and, where possible, are updated on interim figures. P/Es are calculated on "net" distribution basis, earnings per share being computed on profit after taxation, excluding exceptional profits/losses and unrelieved ACT where applicable. Yields are based on mid-prices, are gross, adjusted for a dividend tax credit of 20 per cent and allow for value of declared distribution and rights.

Estimated Net Asset Values (NAVs) are shown for Investment Trusts, in pence per share, along with the percentage discounts (Dis) or premiums (Pm -) to the current pre-closing share price. The NAV basis assumes prior charges at par value, convertibles converted and warrants exercised if dilution occurs.

- □ Indicates the most actively traded stocks. This includes UK stocks where transactions and prices are published continuously through the Stock Exchange Automated Quotation system (SEAQ).
- ● "Tap Stock"
- Highs and lows marked thus have been adjusted to allow for rights issues for cash
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- ‡‡ Tax-free to non-residents on application
- Figures or report awaited
- Not officially UK listed; dealings permitted under rule 535(4)(a)
- ♣ Free annual/interim report available, see details below.
- USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- ‡‡ Not officially UK listed; dealings permitted under Rule 535(2)
- Price at time of suspension
- Indicated dividend yield after pending scrip and/or rights issue
- Merger bid or reorganisation in progress
- Forecast dividend yield; p/e based on earnings updated by latest interim statement.
- ♠ Unregulated collective investment scheme.

a Yield based on annualised dividend
b Figures based on prospectus or other official estimates.
c Cents.
f Flat yield.
g Assumed dividend yield after rights issue.
h Assumed dividend yield after scrip issue.
p Rights issue pending
q Earnings based on preliminary figures.
s Dividend yield excludes a special payment.
t Indicated dividend yield, p/e ratio based on latest annual earnings.
u Forecast, or estimated annualised dividend yield, p/e based on previous year's earnings
v Not subject to ACT.
z Dividend yield includes a special payment
E Auction basis
F Yield based on prospectus or other official estimates for 1994-95.
G Assumed yield after pending scrip and/or rights issue.
H Yield based on prospectus or other official estimates for 1993.
K Yield based on prospectus or other official estimates for 1992-93
L Estimated annualised yield, p/e based on latest annual earnings.
M Yield based on prospectus or other official estimates for 1993-94.
N Figures based on IMR "Headline Earnings" draft proposals.
P Figures based on prospectus or other official estimates for 1994.
R Forecast annualised yield, p/e based on prospectus or other official estimates.
T Figures assumed.
W Pro forma figures.
Z Dividend yield to date.

Abbreviations:
xd ex dividend;
xc ex scrip issue;
xr ex rights;
xa ex all;
xk ex capital distribution.

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AUTHORISED UNIT TRUSTS

Marks & Spencer Unit Trust Ltd (1200)F
PO Box 410, Chester X, CH99 3QD

	Init Chrge	Canc Price	Bid Price	Offer Price	+ or -	Yield Gr's
M & S Inv P'tfolio	5¼	148.8	148.9	158.6	+0.2	1.57
Do Accum	5¼	161.1	161.3	172.6	-0.02	1.55
UK Sel P'tfolio	5¼	128.2	131.6	139.3	-0.04	2.32
Do Accum	5¼	136.9	136.7	146.2	-0.04	2.30

Guide to pricing of Authorised Unit Trusts

Compiled with the assistance of Lautro §§

INITIAL CHARGE: Charge made on sale of units. Used to defray marketing and administrative costs, including commission paid to intermediaries. This charge is included in the price of units.

OFFER PRICE: Also called issue price. The price at which units are bought by investors.

BID PRICE: Also called redemption price. The price at which units are sold back by investors.

CANCELLATION PRICE: The minimum redemption price. The maximum spread between the offer and bid prices is determined by a formula laid down by the government. In practice, most unit trust managers quote a much narrower spread. As a result, the bid price is often set above the cancellation price. However, the bid price might be moved to the cancellation price by the managers at any time, usually in circumstances in which there is a large excess of sellers of units over buyers.

TIME: The time shown alongside the fund manager's name is the time of the unit trust's valuation point unless another time is indicated by the symbol alongside the individual unit trust name. The symbols are as follows: (✓) - 0001 to 1100 hours; (●) - 1101 to 1400 hours; (▲) - 1401 to 1700 hours; (#) - 1701 to midnight. Daily dealing prices are set on the basis of the valuation point; a short period of time may elapse before prices become available.

HISTORIC PRICING: The letter H denotes that the managers will normally deal on the price set on the most recent valuation. The prices shown are the latest available before publication and may not be the current dealing levels because of an intervening portfolio revaluation or a switch to a forward pricing basis. The managers must deal at a forward price on request, and may move to forward pricing at any time.

FORWARD PRICING: The letter F denotes that the managers deal at the price to be set on the next valuation. Investors can be given no definite price in advance of the purchase or sale being carried out. The prices appearing in the newspaper are the most recent provided by the managers.

SCHEME PARTICULARS AND REPORTS: The most recent report and scheme particulars can be obtained free of charge from fund managers.

Other explanatory notes are contained in the last column of the FT Managed Funds Service.

§§ Life Assurance and Unit Trust Regulatory Organisation, Centre Point, 103 New Oxford Street, London WC1A 1QH
Tel: 071-379-0444.

FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (071) 873 4378 for more details.

Standard Life Tst Mgmt Ltd (0730)H

3 George St, Edinburgh EH2 2XZ 0800 393777

State Street Unit Trust Mgmt Ltd (1400)F

20 King Street, London SW1 0QW 071-344 7000

Jupiter Martin Unit Trust Managers Ltd

Lazard Brothers & Co. Ltd

Lazard Investors Ltd ‡

Local Authorities Mutual Invest. Tst.*

2 Fore Street, London EC2Y 5AQ 071-588 1815

M & G Securities Ltd

Allied Dunbar Assurance Plc - Contd.

American Life Insurance Co UK

2-8 Altyre Road, Croydon CR9 2LA 081-680 6000

Barclays Life Assur. Co Ltd

252 Romford Road, London E7 081-534 5544

City of Westminster Assurance (z)

Clerical Medical/Fidelity Investments

Narrow Plain, Bristol BS2 0JH 0272 290566

Friends Provident

INSURANCES

OTHER UK UNIT TRUSTS

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MANAGEMENT SERVICES

OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

CANADA (SIB RECOGNISED)

GUERNSEY (SIB RECOGNISED)

OFFSHORE INSURANCES

GUERNSEY (REGULATED)(**)

IRELAND (SIB RECOGNISED)

IRELAND (REGULATED)(**)

ISLE OF MAN (SIB RECOGNISED)

ISLE OF MAN (REGULATED)(**)

JERSEY (SIB RECOGNISED)

FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (071) 873 4378 for more details.

	Init Charge	Canc Price	Bid Price	Offer Price	+ or -	Yield Gr's
John Govett (Channel Islands) Ltd (1000)F						
6 Windon Place, Helier, Jersey 0534 35576						
Global Stock Inv Ltd (Fmly Govett Fledbond)						
Global High Income	5½	$11.11	11.11	11.15	-0.02	10.5
Dollar Cash	5½	$8.94	8.94	8.97	—	3.00
Japanese Smlr Cos	5	Y963	963	975	-8	0.00
Far East Equity	5½	$17.14	17.14	17.56	+0.15	1.00
US Smaller Cos	5½	$17.89	17.89	18.12	+0.34	0.75
European Equity	5½	DM13.28	13.28	13.41	+0.12	2.00
UK High Income	5	£5.55	5.55	5.58	-0.01	8.40
Initial charge may alter for sales in other jurisdictions						
Hill Samuel Fund Mgrs (Jsy) Ltd (1000)F						
PO Box 63, Bond Street, St Helier, Jersey 0534 604814						
Stlg Fixed Int	3½	£1.378	1.378xd	1.432	—	7.20
Offshore High Yield	3½	£1.557	1.5608	1.617	-0.002	9.35
Global Equity Fund	5½	$18.82	18.82xd	17.59	+0.04	0.00
European Equity	5½	DM21.23	21.23	22.70	+0.28	1.83
UK Growth (CI Fund)	5½	£5.393	5.393	5.738	+0.052	1.88
Nth American Eqty	5½	$11.53	11.63	12.32	+0.13	0.00
Far Eastern Eqty	5½	£14.88	15.10	16.15	+0.06	0.00
International Mngd	5½	£13.71	13.74	14.68	+0.07	0.00
Intnl. Bond Fund						
Sterling Managed	3½	£12.21	12.21	12.74	-0.01	7.37
US Dollar Managed	3½	$14.20	14.20	14.82	-0.01	5.43
International Currency Fund						
Sterling Managed	3½	£32.79	32.79	33.98	-0.03	—
US Dollar Managed	3½	$31.25	31.25	32.38	-0.03	—
Sterling	0	£29.88	29.88	29.88	—	4.60
US Dollar	0	$40.27	40.27	40.27	+0.06	1.83
Deutschemark	0	DM70.98	70.98	70.98	+0.02	5.81
Japanese Yen	0	Y5155	5155	5155	—	1.61
Swiss Franc	0	SF52.89	52.89	52.89	+0.01	3.49
Irish Punts	0	I£25.83	25.83	25.83	+0.01	4.17
Lloyds Bank (CI) U/T Mgrs.						
PO Box 195, St Helier, Jersey 0534 284242						
Lloyds Tst. Gilt	3½	£10.770	10.800	11.180	—	7.10
Dealing daily						
Midland Bank Fund Managers (Jersey) Ltd						
PO Box 26, St Helier, Jersey 0534 606000						
Intl Circuit Portfolio	6	£1.2758	1.2758	1.3528	-0.002	0.09
Gilt	3	£1.0489	1.0489	1.0794	-0.0002	7.41

	Init Charge	Canc Price	Bid Price	Offer Price	+ or -	Yield Gr's
Bank Von Ernst & Cie AG - Contd.						
International Sub-Funds						
Global Equity		$	10.81	—	-0.12	—
Global Bond		$	11.92	—	-0.10	—
Global Bond Div		$	10.48	—	-0.08	—
Global Managed		$	10.04	—	-0.07	—
Banque Scandinave a Luxembourg SA						
16 Boulevard Royal, L-2449, Luxembourg						
Scandifonds						
Scandifond Equity Fund						
Equity Int. Acc	5	$	16.05	17.13	+0.02	3.17
Equity Global	5	$	1.52	1.55	—	—
Equity Natural Res	5	$	1.15	1.17	—	—
Equity Japan Acc	5	Y	114.81	115.97	-0.29	—
Equity UK	5	£	1.46	1.49	—	—
Equity Nordic	5	$	1.29	1.31	-0.01	—
Equity North America	5	$	2.01	2.04	+0.02	—
Equity Mediterranean	5	$	0.97	0.99	—	—
Equity Cont Europe	5	$	1.57	1.59	-0.01	—
Scandifond Far East						
Far East Global	5	$	3.71	3.78	+0.02	—
Scandifond Bond Fund						
Bond Int. Acc	1	$	12.78	12.9	+0.01	6.64
Europe Bond Acc	1	$	1.81	1.84	—	7.15
Bond DEM Acc	1	DM	1.27	1.29	—	6.84
Bond USD Acc	1	$	1.48	1.48	+0.01	5.79
Bond Swedish Acc	1	SKr	16.93	17.1	+0.02	10.16
Scandifond International Stars						
Int Emerging Markets	5	$	1.18	1.21	—	—
Barclays Diversified Portfolio						
14 rue Aldringen L-1118 352 4799 2938						
IPB Deutschmark Reserve		DM	31.82	—	—	—
IPB Sterling Reserve		£	10.69	—	—	—
IPB Swiss Franc Reserve		SFr	30.66	—	—	—
IPB US Dollar Reserve		$	20.48	—	—	—
IPB European Bond		Ecu	18.43	—	—	—
IPB North American Bond		$	21.98	—	—	—
IPB Espana		Pta	3111	—	—	—
IPB Europe		Ecu	12.28	—	—	—
IPB Japan		$	28.66	—	—	—
IPB Pacific Basin		$	24.81	—	—	—
IPB United Kingdom		£	11.74	—	—	—
IPB United States		$	21.87	—	—	—
IPB Hedged Global Bd Dlr		$	20.67	—	—	—
IPB Hedged Global Bd Stg		£	10.25	—	—	—

Prudential Fund Managers (Jersey) Ltd

[illegible]

ISLE OF MAN (SIB RECOGNISED)

[illegible]

JERSEY (REGULATED)(**)

[illegible]

LUXEMBOURG (SIB RECOGNISED)

[illegible]

LUXEMBOURG (REGULATED)(**)

[illegible]

SWITZERLAND (SIB RECOGNISED)

[illegible]

OTHER OFFSHORE FUNDS

[illegible]

MANAGED FUNDS NOTES

[illegible]

CURRENCIES, MONEY AND CAPITAL MARKETS

FOREIGN EXCHANGES

Uncertainty underpins dollar

THE DOLLAR gradually moved higher against the D-Mark in European trading yesterday as dealers remained uncertain how the political crisis in Russia was playing itself out, *writes James Blitz*.

When London trading opened, dealers remained calm about the situation and the dollar hovered around the DM1.6275 level against the D-Mark. But there were reports at about lunchtime in London that telephones in the Russian Defence Ministry were not being answered. This caused a general air of panic in the market, and the dollar moved up to DM1.6375, benefitting, as usual, from its traditional status of a safe haven in times of trouble.

In the afternoon, the dollar moved higher in two phases. First, the latest weekly unemployment figures in the US were issued, showing a rise of 11,000. These underlined fears about the state of the US economy.

The final push up to the day's peak of DM1.6475 was not triggered by specific news. Instead, one dealer said hedge fund managers in New York had been surprised by the lack of news in Moscow towards the end of the day and, with uncertainties still remaining, they decided to play safe and go long of the US currency.

The dollar failed to move any higher, partly because DM1.6475 is an important chart point and also established the high for the dollar in the immediate aftermath of news that President Yeltsin had imposed direct rule. The dollar later fell back to close at DM1.6450 from a previous DM1.6285.

In the immediate future the dollar could remain well underpinned. Some dealers are expecting strong durable goods orders figures for August in the US today, with the consensus forecast looking for a monthly rise of 1½ per cent.

The absence of any resolution to the crisis in Moscow could underpin the dollar further out as well. Mr Yeltsin plans parliamentary elections later this year and presidential elections in June 1994. In the interim, the market is bound to be panicked by the ebb and flow of events.

The D-Mark was weaker across the board, on a day which also saw a fall in German government bond prices. Again, the market's perception was that Germany was the country with most at risk in the Russian crisis, because of Bonn's close ties with the region.

Against the French franc, the D-Mark closed at FFr3.481 from a previous FFr3.483. Sterling performed well against the D-Mark for most of the day, but lost some of its gains before the close. The pound finished at DM2.4775 from a previous DM2.4750.

Once again, the yen was sidelined by the Russian crisis, not least because the Japanese market was on holiday on Thursday. There was buying of yen for D-Marks in Europe and this helped the yen to appreciate against the dollar, closing at Y106.00 from a previous Y106.45.

EMS EUROPEAN CURRENCY UNIT RATES

	Ecu Central Rates	Currency Amounts Against Ecu Sep 23	% Change from Central Rate	% Spread vs Weakest Currency	Divergence Indicator‡
Dutch Guilder	2.19672	2.15051	-2.10	6.79	-
D-Mark	1.94964	1.91491	-1.78	6.44	-
Spanish Peseta	154.250	153.071	-0.76	5.35	6
Portuguese Escudo	192.854	195.929	1.59	2.90	-11
Belgian Franc	40.2123	40.9113	1.74	2.78	-13
Irish Punt	0.808628	0.822726	1.74	2.75	-12
French Franc	6.53883	6.67228	2.04	2.45	-17
Danish Krone	7.43679	7.77476	4.54	0.00	-31

Ecu central rates set by the European Commission. Currencies are in descending relative strength. Percentage changes are for Ecu; a positive change denotes a weak currency. Divergence shows the ratio between two spreads: the percentage difference between the actual market and Ecu central rates for a currency, and the maximum permitted percentage deviation of the currency's market rate from its Ecu central rate. ‡Indicative values only. Divergence indicators are based on 10% band limitations but do not show the 2.25% band between the Dutch Guilder and D-Mark.

£ IN NEW YORK

Sep 23	Latest	Previous Close
£ Spot	1.5035-1.5045	1.5180 1.5190
1 month	0.35-0.33pm	0.37 0.35pm
3 months	1.06-1.03pm	1.05 1.02pm
12 months	3.22-3.12pm	3.30 3.20pm

Forward premiums and discounts apply to the US dollar

MONEY MARKETS

German futures fall

CONTINUING nervousness about the situation in Russia led to a new flight of safe haven funds into the dollar yesterday and this helped to push down the value of most German money market instruments, *writes James Blitz*.

There was no specific news from Moscow to trigger concern in the markets. But it was still unclear yesterday whether President Boris Yeltsin had won a resounding victory in the political struggle being waged there.

UK clearing bank base lending rate 6 per cent from January 26, 1993

Dealers have sold German instruments at times of tension in eastern Europe, out of fears that there is substantial German investment in the region.

The December short sterling contract fell 3 basis points to close at 93.88, and the March 1994 contract dropped 1 basis point to close at 94.42.

There was no suggestion that the fall in these prices had been due to the Bundesbank's decision to leave its Lombard and discount rates unchanged. Most of the market had been of the view that the central bank would not change monetary policy at Mr Helmut Schlesinger's last meeting as Bundesbank President. The central bank would not have wanted there to be any misinterpretation fo decisions made during the Presidential handover.

In the German cash market, call money edged down slightly, benefitting from Wednesday's net injection of DM5.2bn into the market. Dealers said that recent pressure from German tax requirements had also faded.

Overnight funds traded at 6.85 per cent, a little lower than Wednesday's 6.93 per cent. However, dealers said that the call money rate was unlikely to ease much more in the near term.

French franc interest rate futures were little changed on a day which again brought no cut in the Bank of France's official interest rates. But the recent weakness of the D-Mark as a result of the crisis in Russia will almost certainly have helped the French authorities to buy D-Marks and build up reserves.

Sterling interest rate futures were a little more buoyant because of the pound's stronger performance against the D-Mark. The December short sterling contract rose 1 basis point to close at 94.33. Three month sterling interest rates again closed at 5¾ per cent. Most of a £1.25bn shortage was removed by lunchtime.

FT LONDON INTERBANK FIXING

(11.00 a.m. Sep 23) 3 months US dollars		6 months US Dollars	
bid 3⅛	offer 3¼	bid 3¼	offer 3⅜

The fixing rates are the arithmetic means rounded to the nearest one-sixteenth, of the bid and offered rates for $10m quoted to the market by five reference banks at 11.00 a.m. each working day. The banks are National Westminster Bank, Bank of Tokyo, Deutsche Bank, Banque Nationale de Paris and Morgan Guaranty Trust.

MONEY RATES

NEW YORK — Treasury Bills and Bonds

Lunchtime					
Prime rate	6	One month	[illegible]	Three year	4.15
Broker loan rate	5	Two month	[illegible]	Five year	4.78
Fed.funds	3⅛	Three month	[illegible]	Seven year	4.95
Fed.funds at intervention	-	Six month	[illegible]	10-year	5.39
		One year	[illegible]	30-year	6.03
		Two year	[illegible]		

Sep 23	Overnight	One Month	Two Months
Frankfurt	6.75-6.85	6.75-6.85	6.65-6.75
Paris	7⅛-7⅜	7.20-7.40	-
Zurich	4½-4⅝	4¹¹⁄₁₆-4⅞	-
Amsterdam	6.38-6.50	6.38-6.48	-
Tokyo	2½-2⅝	-	-
Milan	8⅞-9⅛	8½-9	-
Brussels	-	9⅛-9½	-
Dublin	6⅝-6¾	6⅝-6⅞	6⁹⁄₁₆-6⅞

LONDON MONEY RATES

Sep 23	Overnight	7 days notice	One Month
Interbank Offer	6⅛	5⅞	5⅞
Interbank Bid	4	5¾	5¾
Sterling CDs	-	-	5⅞
Local Authority Deps.	5½	5¾	5¾
Local Authority Bonds	-	-	-
Discount Mkt Deps	6	5¾	-
Company Deposits	-	-	-
Finance House Deposits	-	-	5⅞
Treasury Bills (Buy)	-	-	5⅝
Bank Bills (Buy)	-	-	5¾
Fine Trade Bills (Buy)	-	-	-
Dollar CDs	-	-	2.96
SDR Linked Dep. Offer	-	-	4⅛
SDR Linked Dep. Bid	-	-	4⅛
ECU Linked Dep. Offer	-	-	7⅛
ECU Linked Dep. Bid	-	-	7⅛

Treasury Bills (sell): one-month 5⅞ per cent; three months 5⅞ per cent; Bank Bills (sell): one-month 5¹¹⁄₁₆ per cent; three months 5¹¹⁄₁₆ per cent; Treasury Bills; Average tender rate of discount 5.1746 p.c. ECGD Fixed Rate Sterling Export Finance. Make up day August 31, 1993. Agreed rates for period Sep 26, 1993 to Oct 25, 1993 Schemes II & III: 7.15 p.c. Reference rate for period July 31, 1993 to Aug 31, 1993, Scheme IV&V: 5.896 p.c. Local Authority and Finance Houses seven days' notice, others seven days' fixed. Finance Houses Base Rate 6p.c. from September 1, 1993; Bank Deposit Rate for sums at 7 days notice 5¾ p.c. Certificates of Tax Deposit (Series 6); Deposit £100,000 and over held under one month 2¼ p.c.; one-three months 5¼ p.c.; three-six months 4¾ p.c.; six-nine months 4¾ p.c.; nine-twelve months 4½ p.c.; Under £100,000 2¼ p.c. from Jan.27, 1993. Deposits withdrawn for cash 1¼p.c.

Options on long-term French bond (MATIF)

Strike	Calls October	Calls December	Calls March	Puts October	Puts December	Puts March
121	-	2.15	-	-	0.32	0.20
122	-	1.44	-	0.07	0.57	-
123	0.24	0.85	-	0.39	1.01	-
124	0.05	0.47	-	-	1.55	-
125	0.02	0.23	-	-	-	-
Open int	82,491	164,296	41,633	41,042	155,268	22,795

Estimated volume 55,783 † Total Open Interest 498,748

† All Yield & Open Interest figures are for the previous day.

BASE LENDING RATES

	%		%		%
Adam & Company	6	Cyprus Popular Bank	6	NatWestminster	6
Allied Trust Bank	6	Duncan Lawrie	6	Nykredit Mortgage Bnk	6.5
AIB Bank	6	Exeter Bank Limited	7	●Rea Brothers	6
●Henry Ansbacher	6	Financial & Gen Bank	7	* Roxburghe Bank Ltd	6
B & C Merchant Bank	13	●Robert Fleming & Co	6	* (in administration)	
Bank of Baroda	6	Girobank	6	Royal Bk of Scotland	6
Banco Bilbao Vizcaya	6	●Guinness Mahon	6	●Smith & Williamson Secs.	6
Bank of Cyprus	6	Habib Bank AG Zurich	6	Standard Chartered	6
Bank of Ireland	6	●Hambros Bank	6	TSB	6
Bank of India	6	Heritable & Gen Inv Bk.	6	●United Bk of Kuwait	6
Bank of Scotland	6	●Hill Samuel	6	Unity Trust Bank Plc	6
Barclays Bank	6	C. Hoare & Co	6	Western Trust	6
Brit Bk of Mid East	6	Hongkong & Shanghai	6	Whiteaway Laidlaw	6
●Brown Shipley	6	Julian Hodge Bank	6	Wimbledon & Sth West	7
CL Bank Nederland	6	●Leopold Joseph & Sons	6	Yorkshire Bank	6
Citibank NA	6	Lloyds Bank	6		
City Merchants Bank	6	Meghraj Bank Ltd	6		
Clydesdale Bank	6	McDonnell Douglas Bk.	6		
The Co-operative Bank	6	Midland Bank	6		
Coutts & Co	6	Mount Banking	6		
Credit Lyonnais	6				

● Members of British Merchant Banking & Securities Houses Association

MONEY MARKET FUNDS

Money Market Trust Funds

Money Market Bank Accounts

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WORLD STOCK MARKETS

AUSTRIA

September 23	Sch	+ or –
Austrian Airlines	1,840	+10
Bank Austria	1,006	+5
Creditanstalt Pf	735	+12
EA General	3,490	–10
EVN	1,092	+7
Lenzing	800	–14
OeMv	753	+3
Perlmooser Zement	930	+30
Radex Heraklith	392	–1
Steyr Daimler	157	+7
Veitscher Magnesit	300	+3
Verbund (Br) A	612	+12
Vienna Int Airport	478	+8
Wienerberger	3,480	+70

BELGIUM/LUXEMBOURG

September 23	Frs.	+ or –
AG Group	2,505	+50
Ackermans	3,350	+45
Almanij	7,580	–20
Arbed	3,455	–135
BBL	3,800	+20
Bank Intl a Lux	15,945	+195
Banq Gen Lux Pts	21,075	–75
Banque Nat Belg	34,825	–50
Bekaert	18,500	+200
CBR Ciment	11,475	—
CMB	2,050	+10
Cobepa	4,900	+10
Cockerill Priv	135	+5
Colruyt	5,400	—
Delhaize Fre Lion	1,128	+2
Electrabel	5,810	–40
Electrabel AFV1	5,700	—
Electrafina ACT	2,500	–40
GBL	3,265	–75

FRANCE (continued)

September 23	Frs.	+ or –
BIC	1,325	+3
BSN	858	–17
BNP Cert Inv	270.50	+1.50
Bancaire Cie	486.60	–14.40
Bongrain	2,716	–64
Bouygues	683	—
CGIP	1,258	–7
Canal+	1,214	+9
Cap Gemini S	200	–4.20
CarnaudMetalbox	194.90	–.10
Carrefour	3,345	–5
Casino	158.30	–2.80
Chargeurs	1,063	–24
Club Mediterranee	378.60	–3.90
Coparex Int	552	—
C C F	240.30	–4.70
Cr Fonc France	1,142	–11
Cred Lyon (Ci)	655	–5
Credit Local Fr	415	–5.60
Credit Nationale	647	+4
Damart	5,010	–10
Docks de France	813	–3
Dollfus Mieg Cie	316	—
EBF	690	–22
Eaux Cie Gen	2,562	–50
Ecco	531	–4
Elf Aquitaine	389.10	–4.40
Elf Aquitaine Certs	358	+4
Elf Sanofi	975	–11
Eridania B-Say	819	+1
Eridania B-Say CI	863	+2
Essilor Int	584	+26
Elay	2,238	–12
Eurafrance	2,009	+84
Euro RSCG	595	–7
Euro Disney	55.30	–2.10
Finextel	153.10	–.90
Fonc Lyonnaise	800	+29

GERMANY · NETHERLANDS · SWEDEN · SWITZERLAND · NORWAY · SPAIN · ITALY · DENMARK · FINLAND · SOUTH AFRICA · JAPAN · AUSTRALIA · HONG KONG · MALAYSIA · SINGAPORE

CANADA

TORONTO

4 pm close September 23

INDICES

NEW YORK · STANDARD AND POOR'S · NEW YORK ACTIVE STOCKS · TRADING ACTIVITY · CANADA TORONTO

TOKYO - Most Active Stocks

Wednesday, September 22, 1993

	Stocks Traded	Closing Prices	Change on day		Stocks Traded	Closing Prices	Change on day
Nikkatsu	35.0m	8	-16	Itochu	3.4m	627	+2
Nippon Steel	5.0m	329	-2	Toshiba	3.0m	698	+16
Mitsubishi Hvy	4.2m	690	-6	Sumitomo Tr & Bk	2.7m	1,380	-70
Fujitsu	3.9m	793	-9	Sumitomo Bank	2.6m	2,180	-70
NEC	3.6m	935	-10	Hitachi	2.4m	897	+19

4 pm close September 23

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

1993 High	Low	Stock	Div	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Chg'ge Prev. Close
14⅝	11½	AAR Corp	0.48	3.7	650	100	13⅛	13	13	
29⅜	13¾	A L Labs A	0.18	1.0	35	714	18⅛	17⅞	18⅛	+⅛
66⅛	54⅝	AMP Inc	1.60	2.4	23	1381	66	65⅜	65½	-⅛
72¾	58½	AMR			16	4485	64⅜	63¾	64	+1
3½	1¾	ARX			12	217	3⅜	3⅛	3¼	+⅛
51½	28⅞	ASA	2.00	4.7	28	361	42⅞	42⅜	42⅞	+⅝
30¾	22⅝	Abbott Lab	0.68	2.5	17	16786	27¼	26	27	+1⅛
12⅞	9	Abitibi Pr	0.50	5.7	4	30	9	d8¾	8¾	-¼
15¼	8¼	Acclaim			43	103	14	13¾	14	+⅛
36	25½	ACE Ltd	0.40	1.2		2936	33⅞	32¾	33¼	+½
12	10¾	ACM Gvt In	0.96	8.6		316	11⅛	11	11⅛	
10	9⅛	ACM GvOpp	0.80	8.2		89	9¾	9⅝	9¾	
9⅞	8¾	ACM Gvt Sp	0.80	8.5		136	9½	9⅜	9⅜	
11⅝	10½	ACM Gvt Se	0.96	8.6		540	11⅛	11	11⅛	
11⅝	9⅝	ACM Man	1.08	9.4		169	11½	11⅜	11½	+⅛
9⅜	8⅝	ACM Mgd	0.72	7.9		272	9⅛	9⅛	9⅛	
12⅜	7¼	Acme Clevs	0.44	4.8	12	110	9¼	9	9¼	-⅛
9¾	6½	Acme Elect			49	61	6⅞	6¾	6⅞	-⅛
27⅝	18⅞	Acordia	0.44	1.7	15	34	25⅞	25⅝	25⅞	-⅛
16	10⅞	Acuson			32	710	11¾	11⅝	11¾	+⅛
21¾	18¼	Adams Expr	0.48	2.6	0	159	18⅝	18½	18½	-⅛
66¼	45½	Ad Micro	3.00	4.8		309	63	62	62¾	+¼
32¾	17⅝	Ad Micro P	3.00	10.0	11	8765	30⅝	30	30⅛	+¼
7¾	5½	Advest Grp	0.16	2.3	12	4	7⅛	7	7	
24¾	16	Advo Inc	0.08	0.5	18	29	17	17	17	
50⅛	41⅛	Aegon ADR	1.23	2.6	10	74	47⅞	46⅞	47⅞	+⅛
60½	43⅞	Aetna Lf	2.76	4.8	40	2735	58	57⅞	57¾	
14½	11½	AGB A	0.26	1.8	30	12846	u14½	14¼	14½	+⅛
34	26½	Aflac	0.40	1.3	15	842	31⅞	31⅝	31¾	-¼
22⅛	16¾	Ahmanson	0.88	4.5	8	380	19⅝	19½	19½	-⅛
7¾	3⅝	Aileen Inc			5	69	3⅞	3¾	3⅞	+⅛
48½	24⅞	Air Pr Chm	0.92	2.4	15	4279	u39	38	38⅛	-½
28½	18⅛	Airbns Frt	0.30	1.3	30	105	23⅞	22½	23⅛	+⅝
38⅞	18¼	Airgas Inc			42	65	38⅛	37¾	38	+⅛
15⅞	10½	Airlease	1.72	11.5	11	129	15	14⅞	15	
[illegible]										

- B -

[illegible]

- C -

[illegible]

- D -

[illegible]

- E -

[illegible]

- F -

[illegible]

- G -

[illegible]

- H -

[illegible]

- I -

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- J -

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- K -

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- L -

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- M -

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NYSE COMPOSITE PRICES

4 pm close September 23

Continued from previous page

[illegible]

NASDAQ NATIONAL MARKET

4 pm close September 23

[illegible]

AMEX COMPOSITE PRICES

4 pm close September 23

[illegible]

AMERICA

Outlook for economy depresses the cyclicals

Wall Street

IN SPITE of rising bond prices and a cooling off in the Russian political crisis, bad economic news depressed cyclical stocks; secondary issues fared much better, *writes Patrick Harverson in New York.*

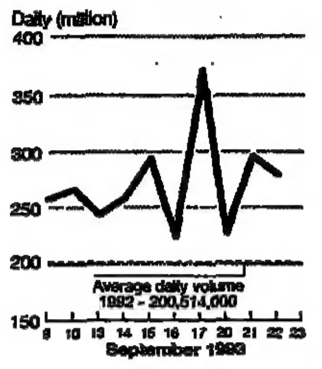
At 1 pm, the Dow Jones Industrial Average was down 6.43 at 3,540.59. The more broadly based Standard & Poor's 500 was up 1.34 at 457.54, while the Amex composite was 2.12 better at 452.41, and the Nasdaq composite up 4.75 at 750.29, a record high for the index. NYSE volume was 159m shares by 1 pm.

The pattern broken on Wednesday by the Dow's near 10-point gain reasserted itself yesterday: cyclical stocks suffered, while much of the rest of the market held steady or prospered. Cyclical stocks have been in the doldrums because investors are increasingly worried about the outlook for the still struggling US economy. Those concerns were fuelled yesterday by bad news from the labour markets. The number of people claiming state unemployment insurance rose 11,000 during the week ended September 18, a much bigger increase than analysts had been expecting.

The fact that the bad jobs data sparked a big rally in bond prices – the benchmark 30-year bond rose three quarters of a point, and the yield dropped close to 6 per cent – did not help the equity markets, however.

Among individual stocks, Sears Roebuck fell $⅛ to $56⅞ in volume of 1.2m shares after the big retailing group warned

NYSE volume



that its fourth quarter results may not be as buoyant as in the same quarter a year ago.

Paramount Communications, which has risen sharply since Viacom, and then QVC, unveiled multi-billion dollar takeover bids for the company, tumbled $1⅛ to $76⅞ in busy trading on reports that Viacom is unwilling to increase the value of its offer to match QVC's counter bid. Viacom, listed on the American Stock Exchange, rose $1⅛ to $60⅞ on the reports, while the Nasdaq-listed QVC eased $⅞ to $59⅞.

Among cyclicals hit again by economic concerns were Caterpillar, down $⅞ at $77⅞, International Paper, $⅞ at $59⅞, Aluminum Company of America, $⅞ at $67⅞, and Minnesota Mining & Manufacturing, $1 at $103⅞.

Wednesday's news that Travelers will merge with Primerica continued to support the former, up another $⅞ to $37⅞ while Primerica edged $⅞ higher to $47⅞.

Storage Technology slumped $3⅞ to $25 after warning that it will make a big loss in the third quarter.

Selected drug stocks were in demand the day after President Clinton unveiled his health-care reform plan. Schering-Plough rose $1⅞ to $64⅞ and Pfizer put on $1⅞ at $62⅞.

Canada

TORONTO continued to gain ground at midsession on strength in the gold sector.

The TSE-300 composite index was up 6.46 at 3,961.40 in volume of 31.5m shares valued at C$347.4m. Declining issues were just higher than advancing ones, at 279 to 276.

EUROPE

Russia stories darken bourse afternoon

THE Bundesbank's decision to hold key interest rates unchanged was expected, reported relatively early in mid-morning, and did nothing to disturb the bourse recovery which was taking place at that stage, *writes Our Markets Staff.*

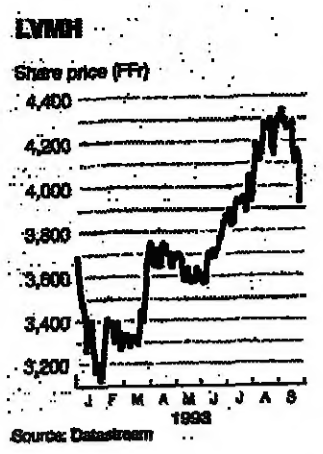
However, share prices fell back in the afternoon, on rumours of unusual troop movements in Russia, and a Moscow news agency story that opponents of President Yeltsin were planning an attack on the main building of the Russian defence ministry.

FRANKFURT moved from 1,916.31 at the official close, with the DAX index up 23.51, to just 1,902.38 in the post-bourse, only a fraction above its final mark on Wednesday afternoon.

Over recent days both German and British strategists and analysts, working for B Metzler in Frankfurt and Kleinwort Benson in London, have said that there was relatively little to go for in German equities. But, during the session, the pattern of stock and sector rotation seemed to continue regardless.

In carmakers, Daimler lost DM2 to DM750 against the market trend, reflecting job cuts scheduled at the cost of a DM1.5bn charge on earnings in the second half of 1993. Volkswagen rose DM11.50 to DM367 on its big European sales ambitions for a variant of its Golf model, for a low addition to its production costs.

LVMH



Turnover fell from DM3.4bn to DM6.4bn. Within that, Veba shot up the active stocks list to end second in turnover of DM726m. Mr Peter Böhnke of Bank Julius Bär in Frankfurt said that there was a buying order for the shares, and rumours that it might be the next German stock to list on Wall Street.

PARIS fell back 1 per cent under pressure from a further round of disappointing interim results. The CAC-40 index ended off 22.43 at 2,057.63.

LVMH came out early in the session with first figures which were slightly worse than some brokers' forecasts. However, the fall in the share price, down FFr168 or 4 per cent at FFr3,924, was exacerbated by the group's statement that full year earnings were unlikely to match those in 1992.

Mr John Wakely of Lehman Brothers in London commented that the group was likely to remain under pressure until there was an upturn in trading conditions in the Far East; but that by contrast to Guinness of the UK, in which it holds a minority stake, 1994 could turn out to be a reasonably good year.

Skis Rossignol went against the trend with a gain of FFr183 to FFr1,553 after noting that 1993/94 profits should be more than twice the 1992/93 level.

AMSTERDAM added to Wednesday's gains with a rise in the CBS Tendency index of 0.5 to 124.1.

PolyGram was actively traded after announcing that it had set the price of its 9.5m new shares to be issued to help fund the acquisition of Motown records at Fl 62.20 outside the US and $34.00 in the US. The shares rose 90 cents to Fl 63.10, and those of its parent group, Philips, by 50 cents to Fl 35.80.

Heineken continued its recent downtrend, losing another Fl 2.10 to Fl 179.50, while Royal Dutch picked up Fl 3.30 to Fl 181.60 and Unilever Fl 1.30 to Fl 201.30.

ZURICH opened firmly in response to a market rumour that a Swiss discount rate cut was imminent, but gave up half the gain in response to a disclaimer from the National Bank president. The SMI index finished 11.2 higher at 2,425.8.

Schindler bearers added another SFr250 to SFr6,050 in the wake of presentations to analysts in London and Zurich, and a buy recommendation from Lehman Brothers.

Roche reflected analysts' recommendations and positive press comment, the bearers adding SFr50 to SFr8,790.

MILAN was disappointed by July's industrial production figures, and nervous about forthcoming first half company results. The Comit index edged 2.86 higher to 592.60.

Olivetti gave up some of Wednesday's gains to finish L21 lower at L1,953 in heavy volume ahead of results today.

Fiat finished L43 lower at L5,896 after a day's high of L6,065, as attention focused on results due next Tuesday.

Banks turned in a firm performance with Credito Italiano L60 higher at L2,593 after its announcement late on Wednesday of a 55 per cent rise in first half profit to L632bn.

Benetton, also due to report shortly, shed L167 to L23,617: Merrill Lynch upgraded its earnings estimates for 1993 and 1994, commenting: "We continue to like the stock, despite its performance."

BRUSSELS fielded a 5.4 per cent plunge in the Belgian flagship holding company, Société Générale de Belgique, after it announced a dip in first-half 1993 group net profit and the sale of its cement-making unit, CBR.

However, the Bel-20 index still managed to close 0.08 higher at 1,278.61 in turnover of BFr1.25bn, with SGB BFr160 lower at BFr2,490. Ms Rachael Rowe of Kleinwort Benson said of SGB that the share price reflected both the fall in profits, and disappointment with the selling price for the CBR stake.

ISTANBUL rose 2.6 per cent to a new high, the composite index closing 384.2 higher at 14,886.6, boosted by a cut in the rate of a one-year government bond.

TEL AVIV rose after parliament approved an Israel-PLO agreement on self-rule in the occupied territories, the Mishtanim index rising by 4.12, or 1.8 per cent to 231.73.

FT-SE Actuaries Share Indices

THE EUROPEAN SERIES

September 23 Hourly changes	Open	10.30	11.00	12.00	13.00	14.00	15.00	Close
FT-SE Eurotrack 100	1279.95	1280.63	1281.04	1280.75	1279.77	1274.10	1275.60	1273.84
FT-SE Eurotrack 200	1353.93	1354.16	1353.20	1353.39	1352.29	1347.46	1347.90	1347.05

	Sep 22	Sep 21	Sep 20	Sep 17	Sep 16
FT-SE Eurotrack 100	1271.99	1279.55	1278.06	1265.02	1257.87
FT-SE Eurotrack 200	1346.05	1351.37	1351.78	1343.69	1335.87

Base value 1000 (26/10/90) High/day: 100 - 1281.42; 200 - 1355.92 Low/day: 100 - 1273.74 200 - 1346.97

Indian investors form a queue for new issues

Stefan Wagstyl on renewed interest in equities

Indian companies are planning an unprecedented wave of corporate fund-raising, which will test the capacity of the country's capital markets to the limit over the next few months.

First in a queue of big issues is Reliance, the textiles and chemicals combine, which yesterday launched a Rs8.6bn ($277m) slice of a Rs21.7bn convertible debenture issue by a new company – Reliance Petroleum, which is building a Rs51.4bn oil refinery.

It is the biggest public offering made in India, raising funds for the largest-ever industrial investment.

Reliance will be followed by about 15 other companies, each planning to raise Rs1bn or more in equity and bonds before the end of the year.

Brokers estimate that, altogether, some 800 companies are planning issues totalling Rs110bn by the end of December. This compares with an estimated total of Rs92.5bn expected to be raised in the six months to the end of September, the first half of the 1993-94 financial year, and Rs185bn raised in the whole of 1992-93.

The rush to raise money reflects a belief that the financial scandal which hit the securities markets last year has almost run its course.

The market's strong surge this summer tends to support this argument, though the scandal is still able to deliver unexpected shocks.

Only this month shares on the Bombay stock exchange suffered a nasty tumble when it emerged that income tax inspectors had frozen dealings in blocks of shares linked to Mr Harshad Mehta, the stockbroker at the centre of the scandal. Hasty intervention by the Finance Ministry, which gave an assurance that innocent investors would not suffer, restored confidence in the market.

The BSE index, which was closed yesterday, ended at 2,751 earlier in the week.

However, according to data supplied by the IFC, the private sector arm of the World Bank, India remains among

The rush to raise money reflects a belief that the financial scandal which hit the markets last year has almost run its course . . . although it can still deliver shocks

the worst performing emerging markets in dollar terms over the year to date.

With bank lending rates high – standing at an official minimum of 15 per cent – companies are prepared to risk the perils of the capital markets. Corporate bonds yield about 14.5 per cent, whereas the yield on equities is under 1.5 per cent.

Few individual Indian investors look at the yield of a new issue. They are after the quick speculative profits to be made from "stagging" – buying the stock in a public offer and then selling as soon as possible on the open market.

Although share manipulation is forbidden, it is easily done since 75 to 85 per cent of all trades consist of deals in an informal forward market called *badla.* So investors who expect brokers to help launch a new issue by pushing up the share price are rarely disappointed. They just have to remember to sell in time.

The success of an issue depends critically on the broker's marketing skills. The streets of Bombay and other cities are hung with banners promoting offers, although they have become more conservative since the Securities and Exchange Board of India, the securities watchdog, banned the portrayal of scantily clad models.

Brokers do not expect investors to disappoint Reliance. The group's last large offering, a combined issue of Rs7bn by Reliance Polypropylene and Reliance Polyethylene, attracted applications from 10m individuals.

For Reliance Petroleum, the group has devised a complex mix of sweeteners, which reflect the increased technical sophistication of Bombay's financiers.

Investors will be permitted to pay for their paper in four instalments over three years. Their securities will consist of convertible debentures with detachable equity warrants. Investors will have no less than three ways of converting their bonds into combinations of warrants, equities and cash. The offer document runs to 101 pages.

As well as the Rs8.6bn public offering, Reliance is offering paper worth Rs8.6bn to Indian institutions and mutual funds, Rs2.2bn to foreign institutions, and Rs2.2bn for shareholders of Reliance Industries, the group's flagship company. Reliance Industries itself is putting up Rs5.77bn.

ASIA PACIFIC

Beijing Olympic hopes provide an incentive

HOPES that Beijing would be successful in its bid to host the Olympic games in 2000 supported a number of the region's equity markets.

Tokyo was closed for a public holiday.

HONG KONG finished sharply higher on expectations that Beijing would be selected to hold the Olympics.

The Hang Seng index advanced 102.10, or 1.37 per cent, to 7,581.00 in turnover of HK$3.44bn.

Stocks with close China ties were actively traded, with Hutchison Whampoa moving ahead 60 cents to HK$23.70, Cheung Kong climbing 50 cents to HK$27.50 and Hopewell, the construction group, gaining 10 cents at HK$5.50.

Elsewhere, Jardine Matheson rose HK$1.50 to HK$61.50, HSBC appreciated HK$1 to HK$80.50 and Wing Lung Bank added HK$1.50 at HK$61.50.

AUSTRALIA was supported by strong gains in BHP and News Corp and the All Ordinaries index advanced 9.3 to 1,928.6 in turnover of some A$345.2m.

News Corp climbed 22 cents to A$10.56 on benefits due if Beijing is selected as host for the Olympic Games. The media group recently acquired a 64 per cent stake in the Hong Kong-based satellite broadcaster Star Television.

BHP finished 26 cents higher at A$16.02 on reports that its Canadian partner, Dia Met Minerals, will decide next year whether to develop a diamond mine on its property in the Northwest Territories.

TNT, up 9 cents at A$1.48, saw the highest turnover with 12.3m shares changing hands, on reports that it had completed an A$300m preference share issue.

SINGAPORE picked up most of Wednesday's losses on buying mainly of Malaysian over-the-counter shares.

The Straits Times Industrial index closed 25.06 higher at 1,995.03 in volume of 271.6m shares. Gains led falls by 253 to 36. CarnaudMetalbox was down a further S$1.30 at S$8.50 following disappointing results earlier in the week.

KUALA LUMPUR rebounded from Wednesday's profit-taking on continued support for selected blue chips.

The KLSE composite index improved 11.00, or 1.3 per cent, to 830.33.

SEOUL was broadly stronger, with interest focused mainly on export-driven shares such as steels, vehicles and semiconductors. The composite index moved ahead 5.93 to 703.49 in turnover of Won422.7bn.

MANILA staged a technical rebound after shedding nearly 80 points in three days of trading. The composite index rose 16.77 to 1,938.20 in combined turnover of 653.6m pesos.

Manila Electric "B" shares were the most actively traded, adding 7.50 pesos at 270 pesos.

NEW ZEALAND recovered after Wednesday's fall but activity remained subdued, with the biggest volume coming among second line stocks. The NZSE-40 capital index closed 18.88 up at 1,927.52 in turnover of NZ$29.3m.

JAKARTA saw a selling spree by local investors that left the official index 2.42 lower at 425.34. Astra International dipped Rp175 to Rp17,100.

KARACHI finished firmer but turnover contracted sharply ahead of the Friday-Saturday weekend. The KSE 100-share index moved forward 5.65 to 1,332.96.

Fuel and energy shares posted further gains, while textile stocks remained mixed because of another increase in cotton prices in domestic markets.

SOUTH AFRICA

GOLD shares came under pressure and the sector index closed the session down 45, or 2.7 per cent, at 1,602. The industrials index shed 24 to 4,339 and the overall index was off 35 at 3,734. De Beers ended R1.50 lower at R76.50.

FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Limited, Goldman, Sachs & Co. and NatWest Securities Limited in conjunction with the Institute of Actuaries and the Faculty of Actuaries

NATIONAL AND REGIONAL MARKETS	WEDNESDAY SEPTEMBER 22 1993								TUESDAY SEPTEMBER 21 1993					DOLLAR INDEX		
Figures in parentheses show number of lines of stock	US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	1993 High	1993 Low	Year ago (approx)
Australia (69)	141.88	-0.1	138.32	95.45	120.10	143.96	-0.3	3.59	141.98	138.21	95.40	119.54	144.41	148.84	117.39	127.83
Austria (17)	167.72	-3.3	163.53	112.86	142.00	141.92	-2.2	1.10	173.47	168.87	116.56	146.06	145.07	180.43	131.16	159.82
Belgium (42)	146.05	-1.4	142.41	98.27	123.65	125.52	-0.6	4.59	148.19	144.26	99.57	124.77	126.26	156.76	131.19	139.82
Canada (107)	122.10	+0.5	119.05	82.15	103.37	116.66	+0.3	2.91	121.50	118.28	81.64	102.29	116.35	130.38	111.41	121.95
Denmark (32)	226.10	-1.1	220.46	152.14	191.42	203.95	-0.6	1.11	228.65	222.58	153.64	192.52	205.56	232.42	185.11	197.68
Finland (23)	104.28	-2.1	101.68	70.17	88.28	127.98	-1.7	0.82	106.48	103.66	71.55	89.66	130.23	118.56	65.50	52.84
France (97)	165.81	-1.0	161.67	111.56	140.37	147.47	-0.7	3.13	167.55	163.11	112.58	141.06	148.50	171.69	142.72	156.65
Germany (60)	126.41	-2.1	123.26	85.07	107.02	107.02	-1.6	1.97	129.13	125.71	86.78	108.73	108.73	129.13	101.59	113.64
Hong Kong (55)	296.63	-0.2	289.24	199.60	251.16	294.65	-0.1	3.41	297.11	289.23	199.64	250.17	295.01	302.14	218.62	236.82
Ireland (14)	163.05	-2.0	158.98	109.72	138.05	160.22	-1.5	3.50	166.36	161.94	111.78	140.07	162.73	173.06	129.28	150.46
Italy (70)	73.76	-1.1	71.92	49.63	62.45	86.86	-0.5	1.87	74.55	72.57	50.09	62.78	87.32	78.93	53.78	60.36
Japan (470)	151.94	-1.4	148.16	102.24	128.66	102.24	-1.3	0.81	154.09	150.00	103.54	129.75	103.54	165.91	100.75	113.95
Malaysia (69)	392.03	-1.5	382.25	263.78	331.90	384.71	-1.5	1.80	398.17	387.61	267.53	335.24	390.50	410.47	251.66	241.91
Mexico (19)	1615.11	-1.7	1574.84	1086.79	1367.44	5518.36	-1.1	0.89	1642.85	1599.26	1103.90	1383.24	5579.02	1771.56	1410.30	1202.04
Netherland (24)	181.13	-0.8	176.62	121.88	153.36	151.12	-0.4	3.63	182.67	177.82	122.74	153.81	151.70	187.16	150.39	161.65
New Zealand (13)	59.33	-0.4	57.85	39.93	50.23	56.82	-0.5	3.92	59.59	58.01	40.05	50.18	57.09	62.98	40.56	42.34
Norway (22)	171.22	-1.4	166.95	115.21	144.96	164.94	-0.6	1.60	173.60	169.00	116.65	146.17	165.89	177.44	137.71	143.40
Singapore (38)	285.32	-1.4	278.21	191.99	241.56	209.59	-1.3	1.64	289.35	281.67	194.43	243.62	212.34	290.53	207.04	183.56
South Africa (60)	184.39	-1.1	179.79	124.07	156.11	187.00	-1.3	2.80	186.49	181.54	125.31	157.01	189.44	215.29	144.72	175.38
Spain (43)	136.20	-2.1	132.80	91.65	115.31	134.34	-1.2	4.25	139.07	135.38	93.45	117.09	135.96	140.97	115.23	123.77
Sweden (36)	183.64	+1.7	179.06	123.57	155.48	220.82	+1.4	1.53	180.65	175.85	121.39	152.10	217.68	196.23	149.70	159.93
Switzerland (50)	137.70	-0.6	134.27	92.66	116.60	121.09	-0.6	1.79	138.56	134.88	93.11	116.68	121.76	139.40	108.91	117.50
United Kingdom (218)	186.27	+0.0	181.63	125.33	157.69	181.63	+0.2	3.93	186.25	181.31	125.14	156.80	181.31	191.70	162.00	174.50
USA (520)	186.55	+0.7	181.90	125.53	157.95	186.55	+0.7	2.75	185.22	180.30	124.46	155.96	185.22	189.40	175.38	170.22
Europe (748)	155.57	-0.7	151.69	104.68	131.72	145.04	-0.4	3.11	156.69	152.53	105.29	131.94	145.63	159.39	133.92	140.73
Nordic (113)	174.28	+0.3	169.93	117.27	147.55	181.57	+0.4	1.35	173.67	169.06	116.70	146.23	180.86	183.23	142.13	147.29
Pacific Basin (714)	156.47	-1.3	152.57	105.29	132.48	109.65	-1.2	1.06	158.50	154.30	106.51	133.46	110.94	168.80	105.89	117.95
Euro-Pacific (1462)	155.99	-1.1	152.10	104.96	132.07	124.05	-0.9	1.92	157.65	153.47	105.92	132.73	125.12	162.86	117.26	127.17
North America (627)	182.55	+0.7	178.00	122.85	154.58	181.81	+0.7	2.75	181.26	176.45	121.81	152.65	180.55	185.59	171.51	167.21
Europe Ex. UK (530)	136.10	-1.2	132.71	91.60	115.26	123.84	-0.8	2.57	137.75	134.09	92.58	116.01	124.81	139.50	112.51	120.25
Pacific Ex. Japan (244)	201.15	-0.5	196.14	135.37	170.33	187.26	-0.5	3.06	202.15	196.79	135.85	170.22	188.25	205.61	152.70	157.18
World Ex. US (1648)	156.01	-1.0	152.12	104.99	132.09	125.89	-0.8	1.94	157.62	153.44	105.92	132.72	126.95	162.89	118.51	128.10
World Ex. UK (1950)	163.17	-0.4	159.10	109.80	138.16	140.99	-0.3	2.07	163.85	159.50	110.10	137.97	141.42	168.50	134.22	138.19
World Ex. So. Af. (2108)	165.20	-0.4	161.08	111.17	139.89	144.27	-0.2	2.24	165.81	161.41	111.42	139.62	144.62	170.43	137.29	141.20
World Ex. Japan (1698)	174.17	+0.1	169.83	117.21	147.48	168.72	+0.2	2.88	174.02	169.40	116.94	146.54	168.39	177.11	157.47	157.20
The World Index (2168)	165.21	-0.4	161.09	111.17	139.88	144.66	-0.3	2.25	165.82	161.42	111.43	139.63	145.03	170.42	137.32	141.34

Latest prices were unavailable for this edition.